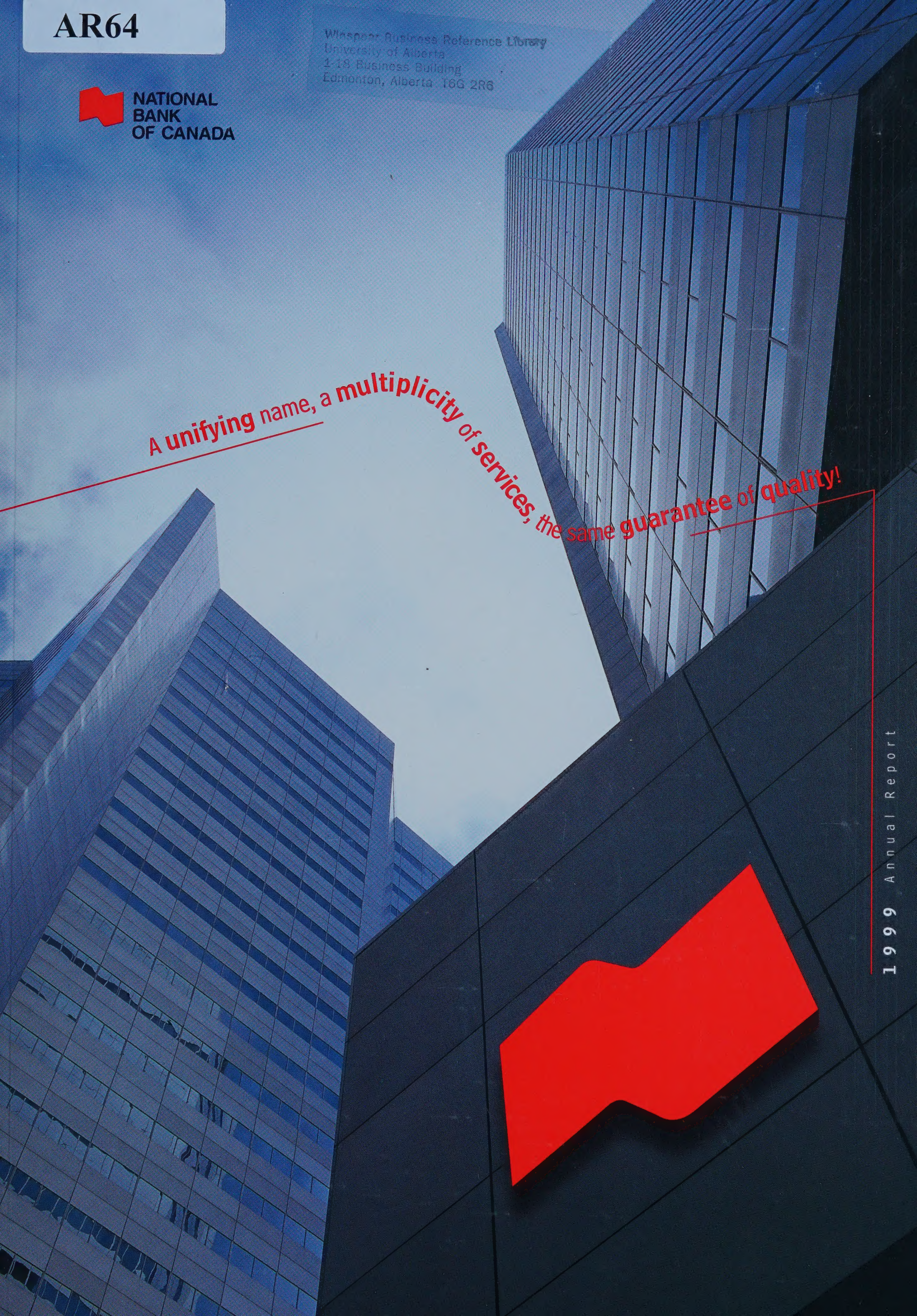
NATIONAL
BANK
OF CANADA



A unifying name, a multiplicity of services, the same guarantee of quality!

1999 Annual Report

National Bank of Canada is an integrated group whose mission is to provide comprehensive financial services to consumers, small and medium-sized enterprises and large corporations in its core market, while offering specialized services to its clients elsewhere in the world.

The National Bank offers a full array of banking services, including all the investment banking services required by large corporations. It is an active player on international capital markets and, through its subsidiaries, is involved in securities brokerage, insurance and wealth management as well as mutual fund and retirement plan management.

Ranking sixth among Canada's chartered banks, the National Bank is the leading banking institution in Quebec and the bank of choice for small and medium-sized enterprises. It has branches in every province of the country. Through its representative offices, subsidiaries and alliances, it is also represented in the United States, Europe and elsewhere in the world.

Founded in 1859, National Bank of Canada is the product of a series of mergers and acquisitions. It has assets of close to $70 billion and, together with its subsidiaries, it employs over 17,000 people. The Bank's head office is in Montreal and its shares are listed on the Toronto and Vancouver stock exchanges.

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Highlights 1998 – 1999

	1999	1998	PERCENTAGE CHANGE 1999/1998
Results of operations			
(millions of dollars)			
Net interest income (taxable equivalent basis)	**1,319**	1,310	1
Other income	**1,263**	1,142	11
Income before goodwill charges	**428**	392	9
Net income	**417**	316	32
Financial ratios			
Return on common shareholders' equity before goodwill charges	**16.4%**	15.5%	
Return on common shareholders' equity	**15.1%**	11.6%	
Per common share			
Income before goodwill charges			
– Basic	**2.30**	2.13	8
– Fully diluted	**2.27**	2.11	8
Net income			
– Basic	**2.24**	1.69	32
– Fully diluted	**2.21**	1.67	32
Dividends	**0.70**	0.66	6
Book value	**15.81**	13.86	14
Stock trading range			
– High	**26.20**	31.25	
– Low	**17.15**	20.10	
– Close	**17.90**	23.05	
Financial position (1)			
(millions of dollars)			
Total assets	**69,801**	70,663	(1)
Loans and acceptances	**46,853**	48,165	(3)
Deposits	**49,984**	48,026	4
Bank debentures and shareholders' equity	**4,336**	3,661	18
Capital ratios – BIS			
– Tier 1	**7.7%**	7.7%	
– Total	**11.0%**(2)	10.7%	
Other information			
Number of common shares at end of year (in thousands)	**188,729**	171,616	10
Number of common shareholders of record	**32,048**	32,902	(3)
Number of employees	**17,626**(3)	17,084	3
Number of branches in Canada	**649**	646	1
Number of banking machines	**761**	744	2

(1) The impact of the adjustment to the general allowance for credit risk as at October 31, 1998 is explained in Note 26 to the consolidated financial statements on page 79.

(2) Taking into account the issuance of US $250 million in bank debentures on November 2, 1999.

(3) Includes 548 employees of First Marathon Inc.

Leadership and Strategy

MESSAGE TO SHAREHOLDERS

Fiscal 1999 saw the Bank take action and achieve results that were consistent with its strategic objectives.

André Bérard
Chairman of the Board
and Chief Executive Officer

As the results show, the Bank met its objective of growing return on common shareholders' equity (ROE). It also had two other complementary objectives, namely, to increase other income to 50% of total revenues and to diversify geographically outside Quebec. For all intents and purposes, the first objective has been reached, and important steps have been taken to attain the second.

Continuity of results

During the year ended October 31, 1999, total revenues (on a taxable equivalent basis) grew 5.3%, largely because of other income which now accounts for 48.9% of total revenues. Income before goodwill charges continued to rise, reaching $427.8 million for an increase of 9.2%.

Excluding goodwill charges, ROE was 16.4% compared to 15.5% in 1998 and earnings per share were $2.30, up 8.0%. Declared dividends rose to 70 cents per share in 1999.

As at October 31, 1999, assets stood at close to $70 billion. Shareholders' equity was $3.3 billion, for an increase of 22.5% over the previous year.

Impaired loans remained almost fully provisioned. At just 0.43% of net average loans and acceptances, provisions for credit losses were stable.

National in scale

One of the major highlights of the year was the acquisition of First Marathon. Its subsequent regrouping with Lévesque Beaubien Geoffrion led to the creation of National Bank Financial.

In its core market of Quebec, the Bank was already providing services to large corporations which often make use of both traditional bank financing and financial market instruments. Moreover, it was in response to the need for providing integrated services that the Bank had earlier combined its own Corporate Banking division with Lévesque Beaubien Geoffrion's Institutional Financing Services. The task remaining was to create a real investment bank.

This is precisely what was accomplished when National Bank Financial came into being. By combining Lévesque Beaubien Geoffrion and First Marathon, we created a brokerage firm and investment bank that is national in scale.

Each of the two firms possessed specific advantages that complemented the other in terms of business sectors and geography. First Marathon brought its expertise in institutional brokerage and investment banking services to the new entity, while Lévesque Beaubien Geoffrion contributed its proven leadership in retail brokerage services and fixed-income securities.

EXECUTIVE OFFICE

The Executive Office, created by the Board of Directors, has the mandate of establishing the Bank's key orientations. In addition to the Chairman of the Board and Chief Executive Officer, André Bérard, the Executive Office consists of the Presidents of the Bank's two main entities, namely, the Personal and Commercial Bank and the Financial Markets, Treasury and Investment Bank.

Until the end of fiscal 1999, the President of the Personal and Commercial Bank was Léon Courville. This responsibility has now been assumed by Réal Raymond, who has also been appointed a director of the Bank. Mr. Raymond, who has been with the Bank since 1970, held a number of positions in the branch network prior to assuming various senior management functions as of 1987.

The President of the Financial Markets, Treasury and Investment Bank is Jean Turmel, who was appointed to the position in 1998. Prior to that time, Mr. Turmel, who joined the Bank in 1981, held several senior management positions in the treasury, securities brokerage and corporate banking sectors. He is also a director of the Bank.

Jean Turmel
President
Financial Markets, Treasury
and Investment Bank
and
Réal Raymond
President
Personal and Commercial Bank

More specifically, the acquisition of First Marathon achieved three different goals for the Bank. First, it made the National Bank financial group more diversified geographically. Second, it enabled it to support its large commercial clients more effectively in all sectors of the Canadian financial market, whether by underwriting public offerings or arranging mergers and acquisitions anywhere in Canada. Third, it helped it to remain competitive in an increasingly integrated financial industry and take on competitors in the Canadian financial sector.

A bank for consumers and SMEs

The National Bank also provides services to a large number of individuals through its network of branches and other banking units located where its clients live and work. In Quebec, the National Bank enjoys the largest market share in the banking industry. Nearly 40% of the Bank's earnings are generated by its retail operations with individuals and very small businesses.

Consumer credit products comprise more than two-fifths of the Bank's loan portfolio which, at the end of 1999, contained some $13 billion in residential mortgages and more than $7 billion in personal loans (consumer loans, indirect loans, lines of credit) and credit card advances. The Bank's strong representation in personal loans and credit card advances is evident in the robust 20% growth.

Personal Banking continues to evolve to meet the needs of our clients. Here too, the Bank is counting on its strategic management to consolidate its leadership.

When it comes to their savings, individuals are demanding more than bank deposits – they want to be able to choose from an array of investment products and are looking for professional advice to help them make the best choice. Along with changing demographics, this trend explains why wealth management is and will continue to be an important growth area.

For the Bank, strategic management means adapting its product offerings to the new market reality. In concrete terms, the Bank has diversified into securities brokerage, mutual funds and insurance, it has allocated new human and material resources to develop the wealth management sector, and it has also clearly identified its various client segments and tailored its products accordingly.

These strategies have enabled the Bank to offer its clients the savings and investment vehicles they want. Even though personal deposit volumes have been flat since 1996, off-balance sheet savings managed by the Bank have risen 29% in the past two years.

Through the financial planners and personal bankers based in the branches, clients have access to professional advice on all types of savings and investment instruments. This year, the Bank opened its first private banking centre, which offers personalized services to a very specific client segment: the owners and officers of our client businesses.

The National Bank truly is a commercial bank. It sees itself as "a bank with solutions" for small and medium-sized enterprises which have given it an unparalleled position in its core market. Moreover, loan and acceptance volumes for this sector grew by 12% in 1999. The strategies that have proven successful in Quebec are increasingly being applied in other provinces and in the United States, where the Bank is looking to capitalize on profitable opportunities in order to diversify its geographic base.

Strategic management

The Bank's strategic management focuses not only on its product offerings but also on its balance sheet and its operating expenses.

The Bank manages its balance sheet in light of economic conditions and its own capital requirements. Methods such as securitization and loan syndication help to ensure that the Bank continues to grow and satisfy its clients, while minimizing risks and reducing required capital. In this way, the Bank manages its growth in the best interest of its clients, its personnel and its shareholders.

In 1999, the Bank launched Operating Excellence, a program aimed at reducing operating expenses. One of the program's components, which is focusing on strategic supply and service management, has already generated substantial savings. Another component is concentrating on operating efficiency, with the goal of eliminating duplication in particular. The program is expected to produce permanent annual savings of $100 million within the next three years.

We cannot close without mentioning the great contribution Léon Courville has made to the National Bank. Mr. Courville has chosen to redirect his career after 15 years of loyal service, which culminated in his responsibilities as Chief Operating Officer, President of the Personal and Commercial Bank and member of our Board of Directors. We thank him and wish him every success in his future endeavours.

To summarize the main thrust of our message, we can say that the Bank's leadership and ability to take charge of its future were clearly demonstrated throughout fiscal 1999. We continued to increase our penetration of the SME and retail markets. Moreover, the acquisition of First Marathon gave us a whole new dimension as an investment bank and player on Canadian financial markets. Such progress was not achieved by chance, but rather it reflects the Bank's strategic management and augurs well for its future profitability.

One Name, A MULTI-FACETED FINANCIAL ENTERPRISE

The National Bank is more than a bank: it is a financial network made up of numerous components. Its clients have access not only to banking products and services, but also to a myriad of financial products ranging from securities brokerage services and mutual funds to insurance. In addition, the Bank offers electronic products and services designed to make it easier for business clients to manage their affairs and enter the world of e-commerce.

These diverse products and services are linked together under one brand name – National Bank – the seal of a trustworthy company. Practically a household name in Quebec, the National Bank name also has enormous potential in the rest of Canada.

Brand management and benefits

A well-known, recognized brand is a major asset for a business corporation. Properly managed, it is a kind of capital that grows in value over time. What marketing experts call "branding" involves a variety of methods for managing a trademark, including communication based on brand image.

Branding makes selling easier. When clients recognize a brand, they are reassured and more loyal. It is therefore in the interest of the company whose brand it is to maintain its standards of quality. Moreover, when the brand is identified with the name of a bank, it represents an even more solid guarantee. Companies whose business strategy is based on strong brands enjoy a competitive edge in the battle to win over consumers.

The National Bank decided to use its main trademark – its name – to identify its subsidiaries and its products since properly managing the type of capital which a well-known, prestigious brand represents is of the utmost importance.

National Bank: the parent brand

Accordingly, Lévesque Beaubien Geoffrion was renamed "National Bank Financial" and InvesTel brokerage services became "National Bank Discount Brokerage".

As for the Bank's insurance operations, both its general insurance activities and its subsidiary National Bank Life Insurance are grouped together under the signature "National Bank Insurance". Its slogan "Insurance I can bank on" evokes the advantage to the client of being able to buy insurance products from a bank.

After renaming its subsidiaries in order to capitalize on the strength of the parent brand, the Bank will be identifying the greatest possible number of its products in a similar way. The mutual funds offered by National Bank Securities, for example, are now known as National Bank Mutual Funds.

Financial marketing in the 21st century

In the 21st century, a strong corporate identity will be an invaluable asset in financial marketing. The National Bank, by effectively using its name as a trademark, expands its brand awareness to its subsidiaries and products while simultaneously highlighting the diversity of its services.

The synergy of a single trademark benefits both the Bank and its subsidiaries. A name like "National Bank Financial", for instance, suggests finance, globalization and a sophisticated clientele, and reflects positively on all of the components using the same brand.

The National Bank is a multi-faceted financial enterprise operating under a single name. Used as a trademark, the name sends out a pertinent message about the company. "National Bank" is a well-known, prestigious brand name that constitutes a rallying point for its personnel, a pledge of quality for its clients and a guarantee of performance for its shareholders.

Major Business Segments of the Bank

FISCAL YEAR 1998-1999

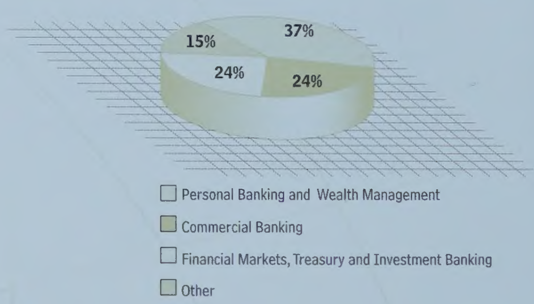
The National Bank is comprised of a network of units and subsidiaries operating in every sector of the financial industry. In Quebec, its core market, the Bank provides a complete line of financial products and services to individuals and businesses alike. Elsewhere in North America and around the world, it accompanies its clients and operates in specialized niches. The National Bank can therefore count on the combined advantages of a solid client base and an effective diversification strategy.

The Bank is composed of two distinct entities, namely, the Personal and Commercial Bank and the Financial Markets, Treasury and Investment Bank, each of which is headed by its own president. The Personal and Commercial Bank is further divided into three divisions: Personal Banking and Wealth Management; Independent Businesses; and Commercial Banking. In the discussion which follows, the Independent Businesses division is incorporated into the Personal Banking and Wealth Management segment.

Support services are divided among three Senior Vice-Presidents who report directly to the Chairman of the Board and Chief Executive Officer, and who are responsible respectively for Human Resources and Administration, Finance and Control, and Credit. The cost of these support services is allocated to the business segments.

The chart below provides a breakdown of the year's results by business segment. In 1999, Personal Banking and Wealth Management accounted for 37% of the Bank's income while Commercial Banking and Financial Markets, Treasury and Investment Banking each accounted for 24%. Changes in the consolidated results of the Bank as a whole are analyzed in Management's Discussion and Analysis.

Income before goodwill charges



PERSONAL BANKING AND WEALTH MANAGEMENT

A multi-faceted business segment

Personal Banking and Wealth Management offers individuals and small business clients the full spectrum of financial products and services. Although banking services have traditionally been made available to clients through the branch network, today they are offered through many different alternate networks as well. Thanks to its wide selection of products and the diversity of its distribution networks, the Bank is able to ensure that all its individual clients receive the products and services that match their specific needs and priorities.

Bankers act as intermediaries between depositors and borrowers. To depositors, they offer savings instruments; to borrowers, they grant credit in various forms, including consumer loans, lines of credit, credit card advances, etc. Complementing these banking services, bankers now also provide an extensive range of financial products, such as National Bank Mutual Funds distributed by National Bank Securities, securities available through the retail network of National Bank Financial and National Bank Discount Brokerage, insurance products marketed under the National Bank Insurance brand and trust products from General Trust of Canada.

Positioned for the future

The table below summarizes the results of the Personal Banking and Wealth Management segment for 1999. The modest increase in its contribution before the provision for credit losses and income taxes in 1999 was caused by pressure on profit margins, particularly with regard to credit card operations.

The reduction in net income was attributable to the higher provision for credit losses, which in turn stemmed from the increase in business volumes and the abnormally low level of losses the previous year. Operating expenses rose only slightly (2.2% over 1998), a remarkable performance given that the segment's average assets climbed 6.9%.

Savings management

As a result of demographic trends and the development of savings products on financial markets, individual clients are more and more often demanding financial advice and wealth management services. In response to this demand, the National Bank has made a major commitment to this market in recent years. We now offer our clients a selection of products and services designed to manage their savings efficiently, going far beyond simple bank deposits.

The Bank has diversified into every sector of the financial industry with the intent of giving its clients access to the entire range of financial instruments available. In short, it has developed a comprehensive approach to managing savings and wealth.

Results by Business Segment
Personal Banking and Wealth Management*
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	1999	1998
Net interest income	762	771
Other income	733	694
Total revenues	1,495	1,465
Operating expenses	1,148	1,123
Contribution	347	342
Provision for credit losses	77	58
Income before income taxes	270	284
Income taxes	105	111
Non-controlling interest	5	4
Income before goodwill charges	160	169
Goodwill charges	–	–
Net income	160	169
Average assets	24,331	22,760
Loans and acceptances	23,827	22,500
Deposits	22,133	22,225

*Includes the Independent Businesses division

Major Business Segments of the Bank

FISCAL YEAR 1998-1999

It has coordinated its product and service offerings among all the components of the group, whether such offerings include term deposits, brokerage services, mutual funds or insurance. To help its clients to make informed decisions, the Bank has put greater emphasis on providing advisory services by having financial planners and personal bankers deployed in the branches.

In this way, the Bank has been able to deal with flat growth in personal deposits. Even though clients have been transferring their savings out of bank deposits over the past few years, the Bank has nonetheless succeeded in recovering more than the total amount withdrawn in other forms of savings instruments.

Technological advancements and more intense competition in the financial industry, combined with clients' changing demands, have brought about a profound transformation in the Bank's network. A series of new electronic networks (automated banking machines, telephone, Internet) have made banking services increasingly accessible with the result that clients have become less dependent on branches. At the National Bank, our clients already carry out 77% of their transactions electronically. Instead of being just a place for carrying out banking transactions, branches have been transformed into financial advice centres.

Adapting the branch network in this way has resulted in expanded service to clients. Although some traditional branches have been closed, many new types of service units are opening up in places which our clients frequent. For example, another 10 branches were opened in supermarkets in fiscal 1999. Branches are allocating fewer hours for transactions at the counter but are giving more time to providing advisory and wealth management services.

The Bank further enhanced its savings management role in fiscal 1999 as evidenced by the $5.4 billion increase in total savings entrusted by individuals to the Bank and its subsidiaries.

Part of the total volume of savings is held in National Bank mutual funds which are administered by National Bank Securities and are now marketed under the National Bank Mutual Funds name. As shown in the chart on this page, the annual returns earned by holders of National Bank funds were generally higher than the average returns for corresponding funds offered by the financial industry.

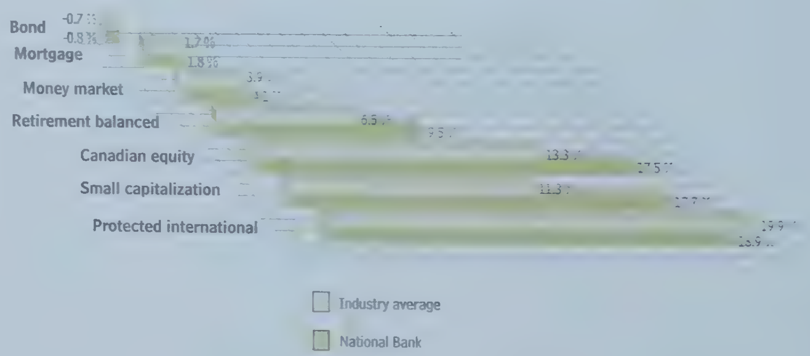
Four new specialized funds were added to the Bank's 32 existing funds during the year. In addition, National Bank Mutual Funds can now be purchased and sold via the Internet.

InvesTel, the discount brokerage arm of National Bank Securities, was renamed National Bank Discount Brokerage in 1999. Its volume of transactions jumped by 65%, with one-third of trades now being carried out and confirmed almost instantaneously via the Internet.

To help train a new generation of investors, brokers and analysts, National Bank Discount Brokerage once again sponsored the inter-university stock market simulation contest organized by *École des Hautes Études Commerciales*, the business school affiliated with the *Université de Montréal*. This contest attracts business students from a number of Quebec universities, eager to test their skills.

The opening of the first private banking centre was another Bank innovation in the area of wealth management. Three more centres will soon be added in Quebec and one is planned for Calgary. Through these private banking centres, high net-worth clients are given the opportunity to have all aspects of their personal financial affairs managed on their behalf. The target clientele is business owners and officers who often deal with the Bank for their business needs but who, until now, were not receiving personal banking services which corresponded to their expectations and personal business volumes. The private banking centres, which are integrated into the commercial banking centres, are a direct by-product of the Bank's success in serving small and medium-sized enterprises.

Comparative annual return on mutual funds
Year ended October 31, 1999



National Bank Insurance includes three sectors: National Bank Life Insurance; National Bank Financial Services, which groups together agents selling various insurance products and mutual funds; and general insurance which initiated direct sales operations (including sales via the Internet) by offering vehicle insurance in Quebec.

The "Insurance I can bank on" slogan launched at the end of the fiscal year is intended as a reminder to clients that all these insurance products benefit from a direct link with the National Bank.

In addition to its trust activities, General Trust of Canada played an active role in the Bank's wealth and savings management operations in Quebec. Moreover, in fiscal 1999, it lowered the eligibility level for portfolio management and estate settlement services.

Growth sectors and strategies

Overall savings management and consumer lending each constitute an area of growth for Personal Banking and Wealth Management.

Overall savings management will require strategies that are in line with those the Bank has applied in recent years. For instance, they will focus on product diversification, stronger expertise in giving financial advice, targeted marketing, and expanded physical and electronic networks which include the Internet and electronic commerce.

Efforts to boost loan volumes will be aimed chiefly at personal loans, including personal lines of credit, and will rely on strategies similar to those which have proved so successful for the Bank in the residential mortgage market.

New Independent Businesses Division

The clientele of the Bank's branch network includes some 130,000 small businesses, often consisting of professionals, self-employed individuals and sole proprietorships whose annual sales are under $1 million. The National Bank holds a large share of this extremely important market. The mission of the newly-created Independent Businesses division, which comes under the authority of a Senior Vice-President, is to develop and enhance the services provided to this client group.

The Bank was proud to roll out a number of new products in 1999. For example, a line of seven FlexBusiness packages was introduced for small businesses, including farm operations. These packages complement those already offered to self-employed clients and are an economical way to take advantage of services such as TelNat, Client Cards and ClicCommerce software. At year-end, approximately 10,000 small businesses had already opted for the packages introduced specifically for them.

The software programs designed for the ClicCommerce family are geared especially to the cash management needs of small businesses. In particular, they enable businesses to access their accounts and pay suppliers via the Internet. The Virtual Advisor for Enterprises, the CD-ROM produced by the Bank for small business owners, describes various electronic products that make it easier for clients to manage their business.

The creation of a one-stop service centre for franchises was another of the Bank's initiatives to provide better service to small businesses.

The areas of growth for the Bank in the independent business market lie in savings products, electronic services, multiform financing and investment advice. The goal is to make a wide array of electronic products available to small business clients, to give them the flexibility they want through the Bank's many distribution networks (including branches, banking machines and the Internet), to maintain ongoing communications and to simplify the credit process.

The Bank intends to focus on its array of products such as the Direct.N@t SME virtual bank, a network which is adapted to the needs of small businesses and gives them access to an off-site account manager; the Business Latitude card, which facilitates cash management and gives target clients a variety of other advantages; the SME Line, which is a single telephone number that small businesses can call to obtain most of the services available to them; electronic products from SIBN; TelNat; MasterCard products and services; and FlexBusiness packages.

Looking ahead to the next century, the Bank has equipped itself with the tools it needs to be a banker for independent businesses.
It has created a specialized division whose role will be to ensure the development of products geared to meeting the needs of this clientele.

FISCAL YEAR 1998-1999

COMMERCIAL BANKING

A bank with solutions

Commercial Banking encompasses all of the financial services that the Bank offers small and medium-sized enterprises (SMEs) in its core market of Quebec as well as the specialized services it makes available to business clients elsewhere in Canada and in the United States. This client group consists of close to 165,000 business clients whose annual sales are generally between $1 million and $25 million. In addition to the 49 commercial banking centres and the five international centres in Canada which are at the service of SMEs, clients also have access to the Bank's worldwide network of subsidiaries, partners and representative offices.

The National Bank prides itself on being a bank which SMEs can turn to for solutions. Working in tandem with its various subsidiaries, the Bank provides business clients with diverse, innovative and integrated solutions that meet their financing, treasury, investment and management needs.

In every region there is a manager specialized in global cash management whose function is to give SME clients advice on how to optimize their cash management operations. These businesses can also draw on the expertise of a manager of international business development who provides advisory services concerning export operations. The National Bank is the only major Canadian bank, through its subsidiary SIBN, to operate its own payroll service, which also incorporates a human resources management module. In cooperation with this subsidiary, the Commercial Banking segment can offer business clients a complete line of information technology and data communications products and services.

With a view to developing its commercial banking operations, the Bank has adopted a diversification strategy.

In geographic terms, diversification means expanding further afield, particularly into the Ontario SME market. A number of commercial banking offices are in the process of being opened so that Ontario SMEs can have access to the banking and financial solutions that have been so successful for the Bank in Quebec. Geographic diversification also applies to the United States, where plans are underway to add satellite offices to the 21 existing offices in order to continue growing the Bank's business in the asset-based lending sector. Junior oil companies in Western Canada represent another of the Bank's specialized niches in markets outside Quebec.

Diversification is also happening at the sector level. Even in its core market, where its share of the market is higher than that of any other bank, the National Bank is looking for specialized niches where it can increase its penetration and attract new clients. Examples of this niche development strategy include establishing business relationships with the film production sector, setting up structured financing transactions and participating in leasing activities through Alter Moneta.

A year of strong growth

In 1999, the Commercial Banking segment's net income rose from $95 million to $101 million, for an increase of 6.3% attributable to revenue growth.

Total revenues for Commercial Banking climbed by 7.1% as a result of strong growth in other income (+10.3%) and net interest income (+5.9%). This increase was fuelled by higher volumes of loans and acceptances. Average volumes outstanding were up by a substantial $1,453 million or 11.9% in 1999.

The modest rise in provisions for credit losses was attributable to higher provisions in Canada and lower provisions in the United States. Growth in commercial banking operations and the relative importance of this segment at the Bank accounted for the increase in domestic provisions, while U.S. provisions were down primarily because of the adjustment made in the previous year.

Operating expenses were up by $12 million, or half as much as the previous year, owing to the growth in commercial banking operations, the strengthening of support structures for our U.S. operations and the ongoing deployment of new information technologies.

Growth sectors and strategies

Ontario and Western Canada, as well as specific segments of the Quebec market, are expected to be the main areas of growth for Commercial Banking.

Our goal in Ontario and Western Canada is to develop our market shares by applying the strategies that have worked well for us in Quebec, such as our role as the bank with solutions and as international trade advisors. In line with these strategic orientations, we plan to open new offices in those parts of the country.

In our core market of Quebec, we intend to expand our market share in the specialized niches where we have developed particular expertise, namely, structured financing, high technology and the sectors related to film production.

In conjunction with the improvement in our portfolio and the introduction of credit risk-based pricing, these strategies are aimed at enhancing the profitability of Commercial Banking.

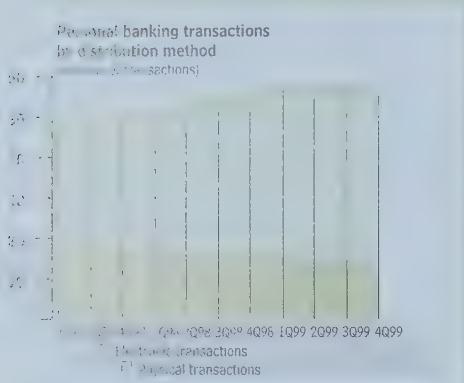
Results by Business Segment
Commercial Banking
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	1999	1998
Net interest income	289	273
Other income	118	107
Total revenues	407	380
Operating expenses	150	138
Contribution	257	242
Provision for credit losses	90	88
Income before income taxes	167	154
Income taxes	66	59
Non-controlling interest	–	–
Income before goodwill charges	101	95
Goodwill charges	–	–
Net income	101	95
Average assets	13,705	12,253
Loans and acceptances	13,626	12,173
Deposits	2,539	2,261

Major Business Segments of the Bank

FISCAL YEAR 1998-1999

Putting technology to work for our clients: that, in a nutshell, is the overriding principle which governs all the various aspects of the Bank's technological development. With the new technologies, not only has the Bank become more accessible to its clients but it is now far easier for them to manage their banking and financial affairs.



The first wave of new technologies for individuals included automated banking machines, Interac Direct Payment and TelNat telephone banking. Today, Direct.N@t and Direct.N@t Plus operate as virtual branches where our clients, using their personal computer, can check their accounts, calculate their financial position, do their banking, pay bills, purchase deposit products, complete a credit application and obtain customized financial advice. They can even download their data to a personal finance software program.

By the end of October 1999, more than 32,000 clients had subscribed to the Direct.N@t service. When electronic funds transfers, banking machines and TelNat are also included, the Bank's individual clients carry out 77% of their transactions electronically. Only 23% of transactions are performed using traditional physical means such as cheques or at the branch counter.

Many other products offered by the National Bank financial group are now accessible via the Internet.

The Bank also provides a full range of information technology and data communications services to its commercial clients, including Direct.N@t SME virtual bank, payroll services, electronic data interchange (EDI), electronic payments and cash management.

The ClicCommerce family of products forms the cornerstone of the Bank's payment and cash management services. It includes ClicStatement and ClicPayment, and will soon be expanded through the addition of ClicServices. These tools give SMEs access to a virtual commercial branch and allow them to use the Internet to pay bills from any private supplier as well as make most tax remittances. Moreover, electronic funds transfers can be easily integrated into the accounting programs favoured by these businesses. By using the Internet to make payments, SMEs can simplify their administrative processes, minimize the risk of error and save both time and money.

In addition to developing most of these services, the Bank's SIBN subsidiary also offers advisory services in e-commerce and, for large corporations, SAP management software.

Another aspect of the Bank's technological development relates to internal management practices. During the past few decades, bank management processes have been revolutionized by new technology, with the result that computerized accounting, automated reports and documents, sales platforms in branches, and computerized models for capital allocation, securities trading, risk simulation and credit evaluation have become commonplace. The National Bank was at the forefront in a number of these new management technologies.

The extremely rapid development of electronic networks and the Internet has totally transformed the technological and commercial landscape. The Bank has been part of this new environment right from the start. Its various client groups can already take advantage of a virtual bank on the Internet, and the Bank will increasingly expand its role of partner for its clients in the world of e-commerce. That is the first phase of the Bank's Internet strategy.

The second phase is to reconfigure our communications infrastructure so that our offices, agencies and subsidiaries can access the same universal sales platform via Internet connections that guarantee performance and security.

The National Bank is committed to the Internet and has every intention of allocating the necessary resources in order to exploit this new frontier. By integrating an Internet component into its overall strategy, the Bank will be able to effectively manage increasingly complex financial products and services, and accompany its clients in the world of e-commerce.

Thanks to these new technologies, the National Bank can continue to operate on a human scale while ensuring that its clients have access to state-of-the-art services.

FINANCIAL MARKETS, TREASURY AND INVESTMENT BANKING

A pivotal year

This business segment encompasses all the financing services which the Bank and National Bank Financial offer to corporate and institutional clients as well as the investment and trading operations which Treasury carries out on financial markets.

Treasury is responsible for operations on financial markets, which comprise the Bank's own management operations as well as hedging operations on behalf of clients. The Bank's management operations include liquidity and securities management, asset and liability matching, and hedging for certain financial instruments. Hedging operations enable clients to protect themselves against exchange or interest rate fluctuations as well as other changes that may occur on financial markets.

Of particular importance to Treasury in 1999 was the decision made by the Montreal Exchange to designate the Bank as one of the four market makers for futures and the sole market maker for options.

Fiscal 1999 was a pivotal year for the Financial Markets, Treasury and Investment Bank. At the beginning of the fourth quarter, the Bank purchased First Marathon, a Toronto-based investment bank and securities brokerage firm. First Marathon was subsequently combined with Lévesque Beaubien Geoffrion to become National Bank Financial. Moreover, as part of its strategy to restructure its securities brokerage activities, the Bank bought out the non-controlling interest in Lévesque Beaubien Geoffrion.

Each of the two founding companies of National Bank Financial brought major strengths to the partnership. As well as being the leading securities broker in the Quebec retail market, Lévesque Beaubien Geoffrion played an important role in corporate financing in collaboration with the Bank's Corporate Banking segment, while First Marathon for its part was one of Canada's leaders in institutional brokerage and corporate financing outside Quebec.

With this impressive heritage and the synergy generated by its association with the Bank, National Bank Financial holds a prominent position among Canada's securities brokers, investment banks and commercial lenders. Its strong presence on stock markets enables it to accompany its clients everywhere in Canada. In addition to mobilizing capital for corporations and the public sector, the investment banking arm of National Bank Financial provides advisory services, particularly in the area of mergers/acquisitions and restructurings.

According to recent surveys of institutional clients and investment advisors, the research department of National Bank Financial is rated among Canada's best. Through its recent involvement in NB Capital Partners, National Bank Financial also acts as a merchant bank by investing in the capital stock of companies which may or may not be listed on a stock market.

National Bank Financial has some 2,500 employees in 89 offices across Canada.

The Corporate Banking segment of the Bank comes under the functional authority of National Bank Financial's Corporate Financing Services, thereby ensuring the close cooperation that is essential when it comes to proposing innovative, integrated financing solutions to large organizations.

Major Business Segments of the Bank

FISCAL YEAR 1998-1999

National Bank Financial holds a dominant position in all areas of corporate financing in Quebec while enjoying an enviable position in brokerage and institutional financing elsewhere in Canada. In Quebec, it is the most complete and reliable independent source of financial and economic information. On Canadian financial markets, it is a force to be reckoned with.

Another Bank subsidiary, Natcan Investment Management, provides financial management services to a variety of companies and institutions including pension funds and institutional investors.

Results on track

The results of Financial Markets, Treasury and Investment Banking for fiscal 1999 were in line with its past performance and augur well for its future success. Income before goodwill charges rose by 11.0%, thanks primarily to the Corporate Banking segment's contribution.

Higher other income (+34.4%), mainly owing to the acquisition of First Marathon, was responsible for the increase in total revenues. Similarly, the First Marathon acquisition was also the main reason for the increase in operating expenses.

Growth sectors and strategies

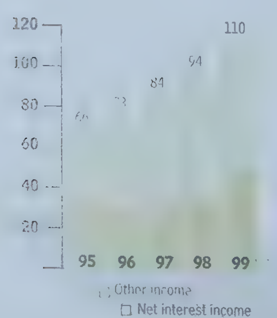
Growth for Financial Markets, Treasury and Investment Banking is expected to be driven by coordinated corporate financing through both public offerings and bank credit tools.

The target for this segment is annual income growth of 10% and a risk-adjusted rate of return of 18%.

The strategies that will be used to reach this target include integrating the various components of National Bank Financial with the Bank's other departments so as to foster synergy, developing and deploying alternative portfolio management approaches, making use of derivatives and finetuning our management techniques for high-yield bonds.

The acquisition of First Marathon and the resulting sector and geographic diversification should ensure that the Bank's portfolio risks are more balanced and should make revenue streams more stable. The thrust of National Bank Financial's strategy will be accelerated development outside Quebec.

Total revenues of Corporate Banking
(millions of dollars)



Results by Business Segment
Financial Markets, Treasury and Investment Banking
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	1999	1998
Net interest income	**104**	124
Other income	**281**	209
Total revenues	**385**	333
Operating expenses	**214**	176
Contribution	**171**	157
Provision for credit losses	**3**	2
Income before income taxes	**168**	155
Income taxes	**63**	60
Non-controlling interest	**4**	4
Income before goodwill charges	**101**	91
Goodwill charges	**7**	4
Net income	**94**	87
Average assets	**32,323**	31,022
Loans and acceptances	**7,656**	7,081
Deposits	**22,094**	19,039

OTHER ACTIVITIES

Other activities include real estate, international operations other than U.S. and the unallocated portion of centralized service units.

International division

The International division is responsible for the Bank's operations outside North America. Its twofold mission is to provide Bank clients with the financial and strategic tools they need on foreign markets and to find profitable business opportunities for the Bank.

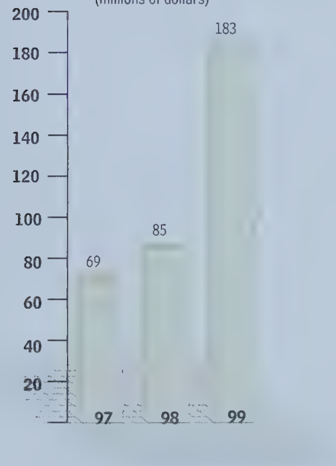
Clients can rely on an international network consisting of offices in Paris, London, New York, Mexico City, Nassau, Hong Kong, Shanghai, Taipei, Singapore, Seoul and Beirut. Furthermore, through cooperation agreements signed with financial institutions in France, Belgium, Germany, Austria, Italy, Portugal, Spain and the United Kingdom, together with a network of 2,800 banking correspondents covering more than 120 countries, the Bank can boast an international character that enables it to serve its clients wherever they do business.

The International division has assigned a manager responsible for international business development to most of the Bank's regional centres in Quebec. The manager's role is to advise business clients on export financing and risk management in an international trade context. A similar position was created in Calgary in 1999 and others will be added in Ontario in 2000.

In 1999, pre-tax income for the International division was $54.2 million, up 18.3% over the previous year. Substantially higher fee income and tight control of expenses were chiefly responsible for this growth.

During the year, the Bank went even further in providing assistance to SMEs which export abroad by becoming involved in Fodex, a fund which invests in the capital of foreign companies that import goods from Canadian companies. Through its NatExport and Sodex subsidiaries, the Bank continues to provide factoring services (purchase of foreign receivables) for exporters. As can be seen from the chart opposite, the volume of factoring receivables more than doubled in 1999.

Volume of factoring operations
(millions of dollars)



In Latin America, the Bank continued to be on the lookout for business opportunities in association with its Chilean and U.S. partners. Given the uncertain economic environment, the Bank is guarding against temporary tremors while ensuring that it is ready to take advantage of the new opportunities that will eventually arise. Our goal remains to create a Latin American banking network with our partners.

In markets outside North America, the Bank's strategy continues to be characterized by caution. Its principal mission is to accompany its clients wherever they do business while remaining open to new business opportunities.

Major Business Segments of the Bank

FISCAL YEAR 1998-1999

A DIVERSIFIED NETWORK ACROSS CANADA

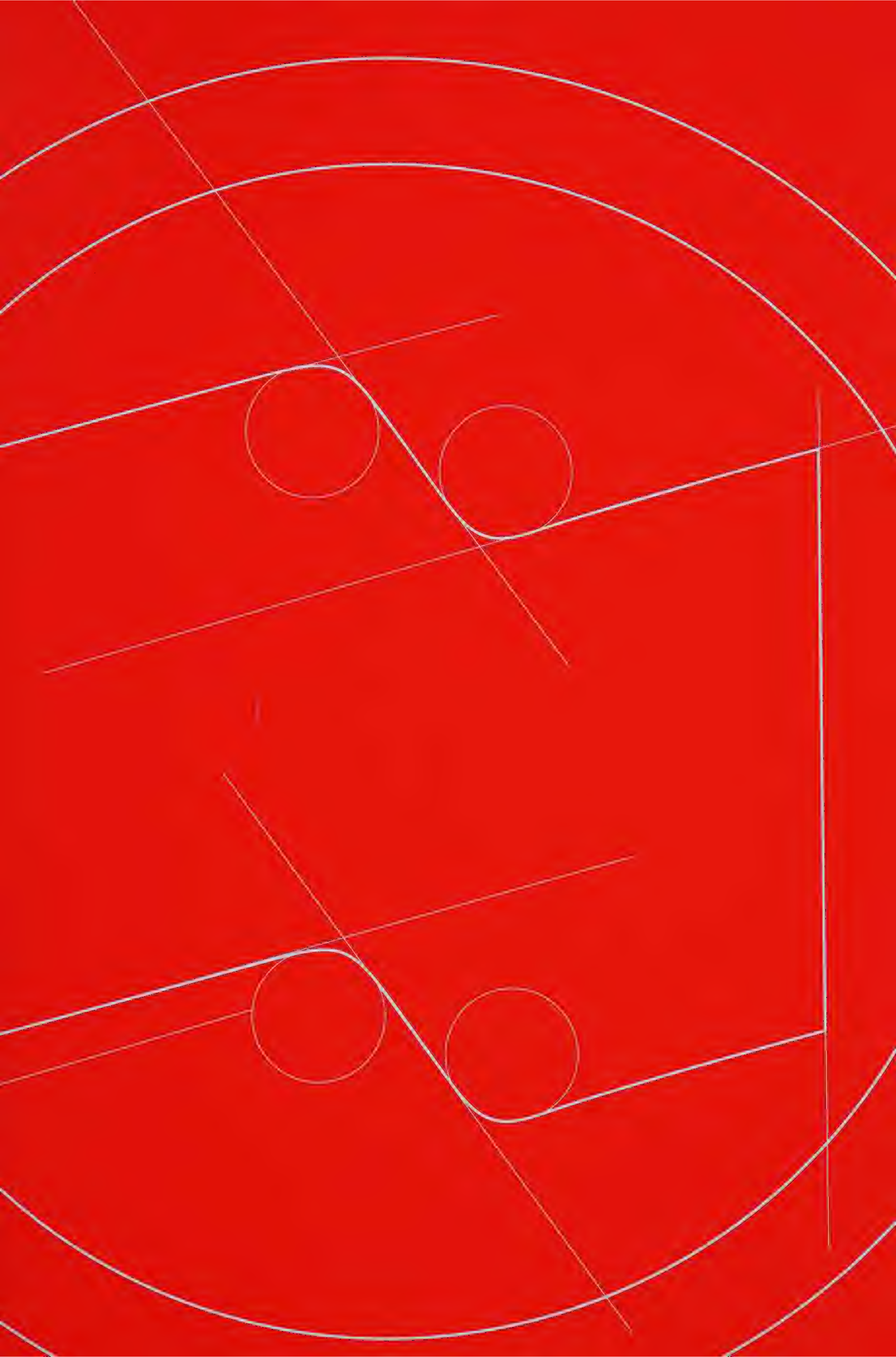
It is impossible to talk about the National Bank and its reach as a financial network without mentioning the essential contribution made by its personnel in terms of customer satisfaction and shareholder value.

The Bank's personnel have been affected by the changes in the financial industry in general and in the banking profession in particular. They have had to adapt, branch out into new areas and upgrade their skills. It was to help them make this transition, and to expand corporate training activities, that the National Bank University Program was created. This highly successful program has already produced 374 graduates. The challenge now is to retain our qualified employees.

The National Bank is a diversified enterprise with a profitable and deep-rooted base in Quebec. In line with objectives, other income now accounts for half of total revenues.

From a geographic standpoint, the Bank operates in profitable niches in the provinces outside its core market. With the acquisition of First Marathon, National Bank Financial earns most of its institutional income (corporations, public sector organizations and various institutions) outside Quebec. Moreover, the Commercial Banking segment will be making major inroads into the Ontario SME market in the year 2000.

The National Bank is a universal bank for individuals and businesses in its core market where its market shares are dominant. It is an integrated financial group which has all the tools it needs to effectively manage its clients' assets. And now, through National Bank Financial, it has truly become an investment bank and an important player on Canadian financial markets.



Economic Environment

FISCAL YEAR 1998-1999

Fiscal 1999 saw a marked improvement in the global economic and financial climate.

A strong economy

Although Japan's recovery remains fragile, the country appears to have emerged from the economic doldrums in which it was mired. Japan's neighbours also seem to have successfully pulled themselves out from last year's crisis. The improvement in Europe was confirmed when France and Germany started to show clear signs of recovery. Nevertheless, it was the U.S. economy, with a growth rate forecast to exceed 4% for the third consecutive year, which again served as the main engine of growth for the world in 1999.

Canada's economy benefitted greatly from the turnaround in world demand and, with GDP growth estimated at 3.7%, 1999 was one of the best years of the decade.

Spurred by consumer spending and business investment, Canadian domestic demand was very strong although the sustained vigour of U.S. demand and higher commodity prices were also key to the economic expansion in Canada. The manufacturing sector, boosted by strong U.S. demand, had a very good year and was responsible for more than half the gains made in employment.

Some financial turbulence

Despite improved economic conditions on the international scene, financial markets were rocked by major upheavals in 1999.

During the second half of the year, the rise in commodity prices, and oil in particular, put pressure on general price levels in the United States and Canada and, though only moderate, that pressure was enough to spark an upward trend in interest rates. Long-term interest rates rose by more than one percentage point over the fiscal year.

However, as the price hikes were limited to the energy sector, U.S. monetary authorities decided against aggressive intervention. Similarly, Canada's central bank opted to let events run their course, despite the persistently weak dollar.

Although it did record some gains, the Canadian dollar remained below US $0.68 for most of fiscal 1999. Despite a lift from higher resource prices, the loonie's rally was held in check by the yawning gap between U.S. and Canadian interest rates during the better part of the year.

Even though returns were in positive territory, stock markets suffered major upheavals at times in 1999 due to investors' concerns about inflation and interest rates. Fears were also stoked by the U.S. trade deficit, which ballooned as a result of the persistent imbalance in the United States between domestic and external demand.

Economic conditions in the Bank's core market of Quebec also improved with the result that economic growth for the year as a whole is expected to be in line with the Canadian average.

However, the tax burden of Quebecers – the heaviest in the country – continues to be a major problem. Unless this burden is reduced significantly, there is a very real risk that economic expansion in Quebec will remain below the Canadian average in the coming years.

FISCAL YEAR 1998-1999

A promising future

Stock market turbulence and interest rate hikes during the year triggered a return to traditional bank deposits. However, it is expected that in the mid- to long-term, the trend of recent years will continue and consumers will replace traditional savings vehicles with mutual funds and other securities. How fast this migration happens will depend on the performance of financial markets.

The National Bank is well positioned to benefit from these developments because of its integrated distribution network which offers a full slate of investment solutions. The Bank is also a key player in the securities brokerage and mutual fund markets.

The climate of confidence among consumers has led to an increase in demand for personal credit in the form of consumer loans and residential mortgages. Another positive factor is that the number of personal bankruptcies has been in decline since it peaked in 1997.

The sustained growth forecast for the next few years will help Canadian companies and stimulate demand for credit. Lenders will also have to assume less risk as the number of commercial bankruptcies has fallen from the high recorded in 1996. This trend will be of particular benefit to the National Bank since commercial bankruptcies are declining at a much faster rate in Quebec than elsewhere in Canada.

The upswing in world demand is expected to profoundly change the economic and financial landscape over the next two years: while the United States has been the primary engine of growth in the world in recent years, Europe and Asia will finally be contributing to global economic expansion. This change will help to correct the imbalances in U.S. trade and bolster demand for commodities.

The international outlook for 2000 and 2001 is therefore very positive for economic growth in North America. Canadian banks and their clients are sure to profit from it.

FISCAL YEAR 1998-1999

OVERVIEW OF RESULTS

Income before goodwill charges amounted to $427.8 million in 1999, for an increase of 9.2% over the previous year. Net income after goodwill charges was $417.0 million, or 32.0% higher than in 1998.

This performance was driven primarily by strong revenue growth. The table below presents the Bank's results on a taxable equivalent basis (also see Table 1 in the appendix to this discussion, on page 38).

At $2,582.4 million, total revenues were up 5.3%, mainly because of substantial growth (+10.6%) in other income. At close to $1.3 billion, other income was almost equal to net interest income, which itself rose by 0.7%.

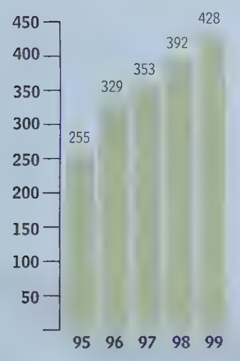
The 5.4% rise in operating expenses was due to business growth and the inclusion of the expenses of First Marathon, which the Bank acquired in the fourth quarter.

As shown in the highlights presented on page 1 of this annual report, the Bank's balance sheet was stable at $69,801 million as at October 31, 1999, compared to $70,663 million a year earlier.

Income per common share before goodwill charges was $2.30, or 17 cents more than in 1998. ROE rose from 15.5% to 16.4%.

During the year, the Board of Directors of the Bank declared a dividend of 70 cents per common share, 4 cents more than in 1998.

Income before goodwill charges
(millions of dollars)



Results
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	1999	Change 1999/1998
Net interest income	1,319.2	0.7 %
Other income	1,263.2	10.6 %
Total revenues	2,582.4	5.3 %
Provision for credit losses	185.0	(4.3)%
Operating expenses	1,662.7	5.4 %
Income taxes	275.1	6.1 %
Non-controlling interest	31.8	1.9 %
Income before goodwill charges	427.8	9.2 %

More favourable economic conditions in the Bank's core market of Quebec, combined with the measures taken in recent years to improve the lending portfolio, enabled the Bank to stabilize its annual provision for credit losses. The provision for the year was $185.0 million compared to $193.4 million in fiscal 1998.

One of the major events of the year was the acquisition of First Marathon, a leading brokerage firm in the Canadian institutional market. The acquired company was combined with Lévesque Beaubien Geoffrion, the Bank's former brokerage subsidiary, to form National Bank Financial. The acquisition, which became effective on August 13, 1999, will further diversify the operations of the Bank, enable it to support its clients in every sector of the Canadian capital market and enhance its profitability.

FISCAL YEAR 1998-1999

INCOME AND EXPENSES

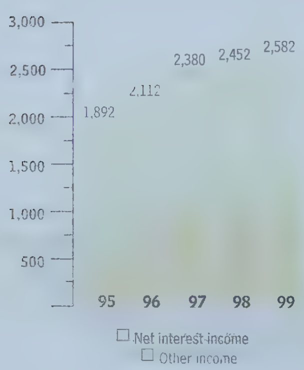
Net interest income

Net interest income on a taxable equivalent basis was $1,319.2 million, for an increase of $8.8 million or 0.7%. Volume growth was the main reason for this increase, as the interest margin shrank slightly, from 1.99% in 1998 to 1.90% in 1999 (see Table 2, page 38).

Net interest income for Commercial Banking was up $16.0 million or 5.9%, in spite of the narrower margin which was essentially caused by two factors: intense competition on the domestic market and U.S. clients' preference for fixed-rate credit, which has a smaller margin. An 11.9% increase in loan and acceptance volumes due to vigorous economic activity in Canada and the United States made a positive contribution to growth in Commercial Banking net interest income.

For Personal Banking and Wealth Management, however, net interest income was down $9 million because of the securitization of $500 million in credit card receivables in April 1998, an operation which reduced net interest income by some $20 million in 1999. This decline was partially offset by higher net interest income from insurance and brokerage activities.

Revenues
(taxable equivalent basis)
(millions of dollars)



Other income

Other income includes all income except for interest and dividend income. In 1999, other income rose from $1,142.5 to $1,263.2 million, for an increase of $120.7 million or 10.6%.

As Table 3 on page 39 shows, this performance can be traced to increased fees from lending activities, acceptances and letters of credit and guarantee (for combined growth of 18.4%), trading activities and gains on investment account securities (+27.7%), capital market fees (+7.3%), and card service revenues (+16.3%). The increase in fee income from lending activities, acceptances and letters of credit and guarantee was generated by higher volumes as well as pricing adjustments based on the risk/return profile of credits granted.

Securitization activities carried out during fiscal 1998 were essentially responsible for the growth in card service revenues. From time to time, the Bank elects to securitize some of the components of its portfolio as a way of diversifying its funding sources and reducing credit risk.

The rise in capital market fees was due to the acquisition of First Marathon. One quarter of the growth in income from trading activities and gains on investment account securities can be attributed to First Marathon, and the remainder to the performance of Lévesque Beaubien Geoffrion.

Other income accounted for 48.9% of the Bank's total revenues, compared to 46.6% in 1998 and 37.6% in 1995. This growth was in line with the Bank's objective of diversifying its revenue streams and earning half its revenues from sources other than interest. This objective has now virtually been achieved.

Provision for Credit Losses

Year ended October 31 (millions of dollars)	1999	Change 1999/1998
Domestic		
Individuals and small businesses	**77**	19
Commercial	**75**	31
Corporate	**3**	1
Real estate	**12**	2
Other	**–**	(1)
Domestic – Private risks	**167**	52
International		
Commercial – United States	**15**	(29)
Real estate – United States	**–**	(31)
Total – United States	**15**	(60)
Other	**3**	–
International – Private risks	**18**	(60)
Total	**185**	(8)

Provision for credit losses

The Bank reduced its provision for credit losses slightly in 1999 ($185 million, as against $193 million in 1998), as shown in the table above. The U.S. commercial sector recorded fewer losses (– 65.9%), while the U.S. real estate sector recorded no losses at all, thereby more than offsetting the increase for individuals and small businesses and the domestic commercial sector.

The performance of the Bank's lending portfolio in the United States attests to the quality of credit risk management in this market. The portfolio is comprised of asset-based loans, a type of financing which mitigates risk through enhanced asset monitoring and increased recovery of collateral in the event of default. In the U.S. real estate sector, the paring down of the portfolio in recent years has paid off.

In contrast to the situation in 1998, the provision for credit losses had to be increased in 1999 both for individuals and small businesses and for the domestic commercial sector. In all, the domestic provision amounted to $167 million, up $52 million.

The provision for the domestic commercial sector had to be raised by $31 million, reflecting the growth in this sector's business. The $19 million increase in the provision for loans to individuals and small businesses brought the total up to pre-1998 levels, which translated into a marked reduction in net impaired loans.

As a percentage of net average loans and acceptances, the provision for credit losses on private-risk loans was down sharply in the United States, whereas it rose in Canada. Overall, it amounted to 0.43%, a level that has been falling steadily in recent years.

The provision of $185 million for 1999, combined with $245 million in write-offs and recoveries during the year, resulted in allowances for credit losses of $989 million as at October 31, 1999 (see Table 4, page 39). Total allowances were comprised of a general allowance of $500 million, specific allowances of $436 million, and allowances for designated countries of $53 million.

FISCAL YEAR 1998-1999

Operating expenses

Operating expenses, over half of which consisted of salaries and staff benefits, rose by 5.4% to $1,662 million (see Table 5, page 40). The factors behind this increase include the additional expenses from First Marathon, salary increases and higher technology development costs. Were it not for First Marathon, operating expenses would have risen by only 3.6% (see the table below).

The increase in operating expenses, excluding First Marathon, was caused by compensation (+5.8%) and expenses for premises, computers and equipment (+3.7%). Other expenses were down by 1.3%.

Compensation in fact accounted for more than four-fifths of the increase ($48 million out of $57 million). Personnel management remains one of the Bank's strategic priorities, notably with respect to recruiting, training and retention. The personnel mix continued to evolve in line with the client groups the Bank is targeting and the key sectors it wants to develop, specifically financial advisory services, wealth management, commercial products and electronic services.

The rise in expenses under "Premises, computers and equipment" was contained at 3.7%, as against 8.1% in 1998, and was attributable to technology development projects.

Lower federal deposit insurance premiums as well as lower capital and payroll taxes accounted for the reduction in other expenses.

At 59.8%, the productivity ratio (i.e., the ratio of operating expenses to total revenues), excluding National Bank Financial, was down slightly.

As at October 31, 1999, the Bank and its subsidiaries had 17,626 employees, an increase of 3.2% over 1998 as a result of the integration of First Marathon.

In the coming years, the Bank intends to increase its productivity (and thereby improve its productivity ratio) while continuing to invest in innovations and technology and to enhance customer service. A new project, known as Operating Excellence, was launched during the year with the goal of improving strategic supply and service management,

Operating Expenses*

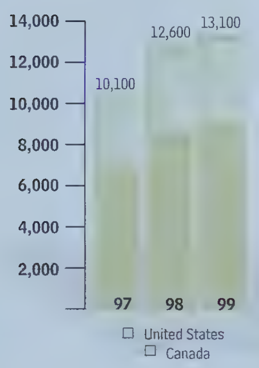
Year ended October 31
(millions of dollars)

	1999	Change 1999/1998
Salaries and staff benefits	870	5.8 %
Premises, computers and equipment	388	3.7 %
Other	376	(1.3)%
Total	1,634	3.6 %
As a % of total revenues**	59.8 %	60.1 %

* Excluding First Marathon

** Excluding National Bank Financial

Loans and acceptances to business clients
(millions of dollars)



eliminating duplication within the organization and implementing administrative partnerships. The Bank has decided to selectively focus on expenses that can be rationalized and is aiming to reduce annual operating expenses by $100 million over a three-year horizon, without however compromising new technologies, the organization's manoeuvrability or customer service.

Income taxes

In 1999, income taxes amounted to $275.1 million adjusted to a taxable equivalent basis. The Bank's effective tax rate, on a taxable equivalent basis, was 37.4% in 1999 as against 38.0% in 1998.

ANALYSIS OF FINANCIAL CONDITION

Assets

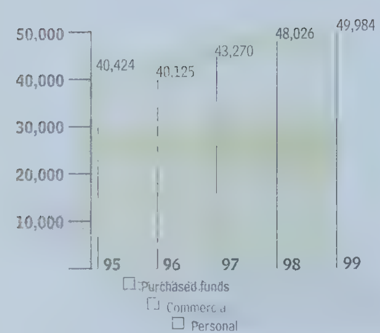
Total assets stood at $69,801 million as at October 31, 1999, or virtually the same as for the previous year when they totalled $70,663 million. This stability in the balance sheet is the result of a deliberate strategy aimed simultaneously at reducing funding requirements and increasing profitability.

The table below shows that the sum of cash resources (mainly deposits with financial institutions) and securities rose slightly by $202 million or 1.0%. As securities purchased under resale agreements also represent very liquid assets, they cannot be excluded when considering the variation in liquid assets. When these securities are included with cash resources and securities, the result is a $1,265 million or 5.0% reduction in liquid assets.

Asset Growth
As at October 31
(millions of dollars)

	1999		1998	
	$	%	$	%
Total assets	69,801		70,663	7
Growth during the year	(862)	(1)	4,428	
Components of growth:				
Cash resources	(1,291)	(27)	376	8
Securities	1,493	10	5,429	54
Loans				
Residential mortgage	(844)	(6)	401	3
Personal and credit card	1,181	20	28	–
Business and government	(486)	(2)	2,027	11
Securities purchased under resale agreements	(1,467)	(30)	(4,208)	(46)
Customers' liability under acceptances	304	11	385	17
Premises and equipment and other assets	248	11	(10)	–

Deposits
(millions of dollars)



Mortgages managed by the Bank increased by approximately $1 billion. However, following the securitization of a portfolio valued at $1.8 billion, residential mortgage volumes were down $844 million, thereby contributing to the overall decline in assets.

These reductions were partially offset by strong growth in personal loans and credit card advances. Total volumes in this category amounted to $7,157 million at year-end, or 19.8% more than the previous year. Due in part to favourable economic conditions, this increase was also driven by growth in indirect loans sold through merchants such as car dealers.

The slight drop in business and government loan volumes (−2.3%) was made up in part by higher acceptance volumes (+11.4%). As the chart on the previous page indicates, total loans to small and medium-sized enterprises in Canada and the United States were up substantially.

At year-end, loans and acceptances (not including securities purchased under resale agreements) represented $43,373 million of the Bank's portfolio. This was up slightly (+0.4%) from $43,218 million at the end of 1998.

Funding

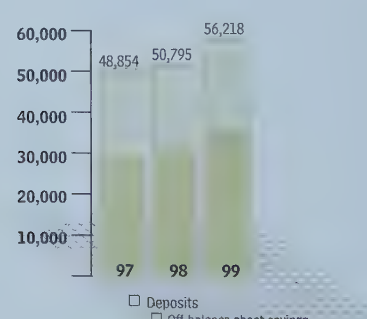
Deposits

As at October 31, 1999, the Bank funded approximately 71.6% of its assets through deposits, for an increase over the previous year. Personal deposits accounted for 40.6% of the deposit mix, commercial deposits for 17.5% and purchased funds (primarily deposits by other financial institutions) for 41.9% (see Table 6, page 40). Total deposits at the Bank amounted to $49,984 million, for an increase of 4.1%.

The downward trend in personal deposits which began in 1997 came to a halt, at least temporarily. However, it could resume if individuals go back to buying non-bank savings instruments such as mutual funds and other forms of stock market investments. For the time being, individuals seem to be shying away from the volatile financial markets, preferring instead to take advantage of more attractive interest rates – all of which benefits bank deposits.

Whatever savings and investment instruments its clients choose, the Bank is able to respond to their needs, offering as it does mutual funds, securities brokerage, other forms of savings and wealth management

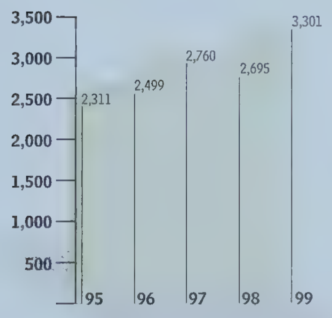
Total savings of individuals
(millions of dollars)



services. In 1999, the value of assets managed or administered on behalf of individuals, which are not recorded on the balance sheet, posted an overall increase of close to $5 billion, to total $35.9 billion. When balance sheet deposits are added, the result is a rise of $5.4 billion and an aggregate value of over $56 billion in personal savings placed with the Bank.

Agreements for offsetting overdrafts run by affiliated companies of corporate clients were revised during the year, with the result that commercial deposits were down by $1,091 million in 1999. The Bank had to raise its volume of purchased funds (i.e., deposits obtained on financial markets, generally from other financial institutions). Purchased funds represented 41.9% of total deposits at year-end. By restraining balance sheet growth, the Bank limited its need for purchased funds.

Shareholders' equity
(millions of dollars)



Capital

As at October 31, 1999, the Bank's total capital stood at $4,779 million (see Table 7, page 40).

Capital is obtained through external financing (debenture and share issues) and from internally generated capital, or earnings not paid out as dividends. Internally generated capital totalled $292 million for the year, which approximates net income of $417 million less the dividend payout of $147 million. External financing amounted to $303 million, including $301 million in common shares issued to finance the acquisition of First Marathon and $69 million in bank debentures, less $62 million representing the buyout of the non-controlling interest in National Bank Financial. This company subsequently became a wholly-owned subsidiary of the Bank.

Following these financings, capital increased substantially from $4,184 million at 1998 year-end to $4,779 million as at October 31, 1999. This 14.2% growth in the Bank's capital brought it to an historic high. Shareholders' equity increased by 22.5% to reach a record $3,301 million.

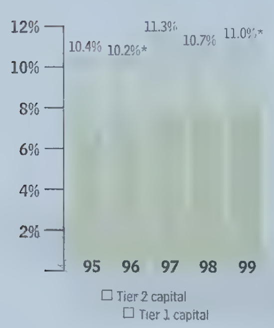
Regulatory capital is calculated according to the rules of the Bank for International Settlements (BIS) (see Table 8, page 41). Taking into account the issue of US $250 million in bank debentures on November 2, 1999, the Bank's Tier 1 capital rose by 8.2%, and its Tier 2 capital, by 21.8%. Total regulatory capital was up 12.0% at $4,865 million.

Regarding the calculation of risk-weighted assets according to BIS rules, it will be recalled that, since 1998, trading account securities have been valued according to the new standard introduced by the Office of the Superintendent of Financial Institutions (OSFI), which considers them a market risk. The credit equivalent of securities was therefore reduced and a new item was created, to which $1,083 million was posted.

The Bank aims to slow growth in risk-weighted assets in order to maintain strong capital ratios. The balance sheet strategies used to this end include mortgage loan insurance from the Canada Mortgage and Housing Corporation, securitization of portfolio components and loan syndication. These strategies enabled the Bank to contain BIS assets despite its acquisition of First Marathon.

The ratio of regulatory capital to total risk-weighted assets, taking into account the bank debenture issue of November 2, produced a Tier 1 capital ratio of 7.7% and a total capital ratio of 11%. These ratios are comparable to the 7.7% and 10.7% recorded at 1998 year-end, and to the 7% and 10% proposed by the OSFI for well-capitalized institutions.

Capital ratios



* Taking into account the issuance of bank debentures in November.

By utilizing strategies which include securitization, the elimination of less profitable portfolios and loan syndication, the Bank aims to achieve a Tier 1 ratio of 8% in the near future.

Assets under administration/ management

As at October 31, 1999, the value of assets administered and managed amounted to $105.5 billion (see Table 9, page 41), up sharply from 1998. The surge is chiefly attributable to the addition of assets administered by the correspondent network acquired with First Marathon.

RISK MANAGEMENT

Risk is an inherent feature of banking intermediation and financial products, and managing that risk is one of a bank's main responsibilities. This section contains a description of the various types of risk affecting the Bank's operations and the control methods and procedures used by the Bank, an analysis of the Bank's balance sheet in terms of credit and interest rate risk, and an analysis of the risk in off-balance sheet activities (notably derivatives).

CONTROLLING RISK

Credit risk, market risk and liquidity risk are the three main risk categories. In addition, there are legal risks and risks associated with operations.

The risk related to a specific financial instrument (debt security or other type of security) is managed using a portfolio approach: the instrument is considered a component of a portfolio that may contain other balance sheet and off-balance sheet items.

Credit risk

Credit risk is the risk that a loss may occur if the counterparty fails to honour its commitments with respect to a financial instrument. It can apply to both balance sheet and off-balance sheet assets, such as a loan or a derivative with a positive market value.

Credit risk is controlled using detailed policies which are designed to maximize the risk/return trade-offs. These policies are approved by the Board of Directors.

The Bank's credit risk management policy for balance sheet items is adopted by the Board of Directors in collaboration with the Executive Office and the Credit Committee of the Board. It sets out the objectives and the methods and procedures for identifying and measuring risks (including concentration risk), evaluating credit, approving applications, as well as checking, monitoring and controlling such risk.

The Chief Executive Officer and the Chair of the Credit Committee of the Bank (a separate entity from the Credit Committee of the Board) are responsible for implementing these measures. Line management with the authority to approve credit applications varies in accordance with the size and risk of the loan being contemplated. Beyond certain limits, the decisions are made by the Credit Committee of the Board. Each credit application must meet the requirements stipulated in the Bank's policy. The portfolio is monitored on an ongoing basis and a specialized team analyzes the risks associated with the various credit categories and sectors in which the Bank wants to be involved.

At least once a year, the Chair of the Credit Committee of the Bank presents a detailed risk management report to the Board of Directors. Periodic and special reports are also submitted to the Board of Directors, the Audit Committee and the Credit Committee of the Board. Accounts which could become problematic are monitored very closely and independent examinations are conducted.

Market risks: interest and foreign exchange rates

Market risks are related to the probability of variations in the value of a financial instrument because of fluctuations in economic conditions and market prices. For a bank, the main market risks are tied to changes in interest and currency rates.

"Foreign currency risk" or "foreign exchange risk" refers to the impact of exchange rate movements on the value of a financial instrument.

"Interest rate risk" designates the risk that the value of a balance sheet or off-balance sheet financial instrument will be affected by market variations in interest rates. On the balance sheet, interest rate risk results from the mismatching of asset and liability maturities. To control this risk, the Bank manages its asset and liability matching and adjusts the mix of its portfolios using a vast range of both balance sheet and off-balance sheet financial instruments, including securitization transactions.

The Board of Directors has established specific, detailed policies for controlling market risks. These policies are aimed not at neutralizing such risks but at maximizing risk/return trade-offs within carefully defined limits.

Market risks are evaluated and managed by the Treasury sector, primarily using the VAR (value at risk) methodology. With a simulation model, it is possible to estimate the impact of potential market fluctuations on the financial instruments held by the Bank. The model concentrates on worst-case loss scenarios and excludes only those risks with a probability of less than 1% over a 10-day period. In addition to daily VAR simulations, at least once a week the Bank carries out a simulation aimed at gauging the impact of catastrophic events that exceed the 99% confidence level. This stress testing is used to measure – and if necessary mitigate – the Bank's vulnerability to extreme shifts in market conditions.

The Bank also uses other risk measurement methods as part of its internal control operations. Measuring the day-to-day volatility of profits and losses, which is key to controlling market risk, is used in conjunction with other standard financial risk measurements and various sensitivity analysis techniques.

The Audit Committee establishes maximum risk limits and the procedures to follow depending on the level of risk involved. Responsibility for managing market risks lies with the President of the Financial Markets, Treasury and Investment Bank. Managers are required to respect strict follow-up and reporting procedures, and stop-loss mechanisms are automatically triggered should losses at any time exceed certain specified levels. Moreover, an independent unit within the Bank is responsible for monitoring and controlling transactions.

Liquidity risk

Liquidity risk refers to an institution's ability to raise the funds needed to meet its financial commitments, whether for balance sheet items or off-balance sheet activities. An integral part of asset and liability management, liquidity risk is included in the strategies applied by Treasury. Since it is extremely important for a bank to have liquid assets available at all times, special emphasis is placed on managing them.

The Bank's liquidity management policy, which is approved by the Board of Directors, sets out the objectives, measurement methods, minimum requirements and control procedures as well as strategies for obtaining market funds and the steps to be taken to deal with any unforeseen events. The President of the Financial Markets, Treasury and Investment Bank is responsible for applying the liquidity management policy, a report on which is submitted each year to the Executive Office. The situation is regularly monitored through weekly follow-up reports on liquidity ratios and quarterly reports on the Bank's overall liquidity position.

The liquidities needed for the Bank's operations are guaranteed by stable, well-diversified funding through core deposits and purchased funds, a sufficient level of equity, and the Bank's access to capital markets. Other techniques, such as loan syndication and securitization, the marketing of Bank products and the use of derivatives, are also instrumental in matching assets and liabilities which in turn ensures sufficient liquidity.

Operational risk

Operational risk concerns the possibility that losses would be incurred should information systems or operations control and management systems fail. The Bank has a number of ways to limit this risk exposure. For example, it establishes specific policies and procedures, including emergency plans (for recovery in the event of equipment breakdown, for instance), continuous monitoring and follow-up of procedures and systems, daily back-up of transactions, regular presentation of reports to senior line management, separation of transaction and control functions, and personnel training.

FISCAL YEAR 1998-1999

Analysis of balance sheet risks

Credit and interest rate risks represent the main risks for financial instruments on the balance sheet.

Credit risk management

In 1999, the Bank continued to apply very strict credit limits and procedures and further refined its decision support systems. In the Commercial Banking segment, use of the RAROC capital allocation model ensures that credit terms and conditions more accurately correspond to the risks inherent in the credits granted. The Bank continues to carry out syndication activities in order to spread the risk in certain loans among several financial institutions and thereby meet the needs of borrowers while reducing risk for lenders. Securitization is also used to reduce risk by transferring it to others. In doing so, the Bank can then concentrate more fully on the sale and administration of credit.

These strategies have been successful as the Bank was able to substantially improve the quality of its portfolio in recent years.

Impaired Loans
As at October 31
(millions of dollars)

	1999	Change 1999/1998
Private impaired loans, net		
Domestic		
Individuals and small businesses	**216**	(11.5)%
Commercial	**240**	11.1 %
Corporate	**3**	– %
Real estate	**33**	6.5 %
	492	0.2 %
International		
Commercial – United States	**30**	(16.7)%
Real estate – United States	**13**	18.2 %
Other	**7**	– %
	50	(7.4)%
General allowance for credit risk	**(500)**	– %
Private impaired loans, net	**42**	(6.7)%
Impaired loans to designated countries, gross		
Gross	**38**	(9.5)%
Allowance	**(37)**	(7.5)%
Impaired loans to designated countries, net	**1**	(50.0)%
Total impaired loans, net	**43**	(8.5)%
Private impaired loans, gross	**978**	(5.7)%
Allowance for credit losses	**936**	(5.6)%
Private impaired loans, net	**42**	(6.7)%
Provisioning rate	**95.7 %**	

The RAROC (Risk-Adjusted Return on Capital) model is a financial analysis tool designed to ensure the most efficient allocation of capital by comparing returns for each of the Bank's constituent parts and the capital they use.

In the RAROC methodology, the risk which a borrower represents is calculated according to a number of variables: the borrower's credit rating, which serves to estimate the probability of non-payment; the loan term, which is used to take into account the uncertainty regarding the borrower's future creditworthiness; the collateral pledged by the borrower; the risk of drawdowns on credit commitments; and portfolio diversification.

The model assigns an expected loss to each credit facility based on average rates of default. Default rates are calculated over the entire economic cycle in order to avoid underestimating the credit risk during periods of robust growth. The allocation of capital is determined in such a way as to ensure adequate coverage of losses in 99.9% of cases. The foundations of the RAROC methodology for allocating capital based on credit risk are the same as those for the VAR method applied to market risk.

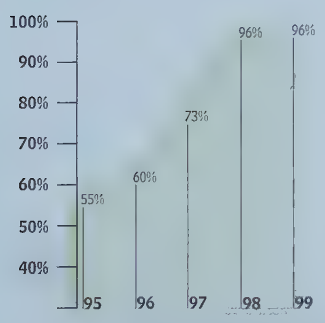
In addition to allowing better management of credit risk, the RAROC method is much more accurate in measuring the profitability of the Bank's products, commercial operations, client segments and business units.

The Bank's loan portfolio is very diversified (see Table 10, page 42). Close to 30% of outstanding loans are residential mortgages, 16% are personal loans (primarily consumer loans, credit cards and certain loans to small businesses), while the remainder are mainly business loans. These loans are made to businesses in every sector of the economy and represent close to half of the Bank's portfolio.

The sharp increase in personal loan volumes (24.8% gain between September 30, 1998 and 1999) resulted in their accounting for a greater share of the overall loan portfolio (from 12% to 16%). Consequently, the share of business loans declined.

The distribution of business loans among the various sectors of the economy has not changed significantly from fiscal 1998. The Bank constantly monitors developments in the economic sectors in which its clients operate and, at the first warning sign, carries out simulations to evaluate the impact of various scenarios and to adapt its policies accordingly.

Provisioning rate for private impaired loans



Gross real estate loans were down to $612 million as at October 31, 1999, a decline of 24.5% from a year earlier (see Table 11, page 42). Less the $64 million allowance to cover potential losses in this sector, net volumes outstanding were $548 million, for a decrease of 21.2% from the previous year. Net real estate exposure represented only 17% of shareholders' equity at year-end and 1% of loans and acceptances.

During the year, gross private impaired loans declined from $1,037 million to $978 million (see Table 13, page 43). Net of allowances, their volume was down 6.7% to $42 million, with the strongest reductions being recorded in the domestic individual and small business market (–11.5%) and the U.S. commercial market (–16.7%). The $24 million increase in impaired loans in the domestic commercial portfolio was largely due to higher business volumes with SMEs. Only minimal increases were recorded in the other portfolios.

As a percentage of the $978 million in gross private impaired loans, the $936 million allowance for credit losses as at October 31, 1999 represented a provisioning rate of 95.7%. As a percentage of common shareholders' equity, net impaired loans declined yet again, to 1.4%.

Changeover to the Year 2000

As explained in last year's Annual Report, National Bank of Canada began studying the issues associated with the changeover to the year 2000 as far back as 1996 when it set up a task force – the National Bank 2000 team. This group of experts was given the mandate to mobilize the necessary resources to analyze information technology systems, identify and correct problems, as well as ensure the continuity of operations and customer service.

An operating budget of $43 million was allocated to the National Bank 2000 team for 1997 through to 2000. As at October 31, 1999, 85% of this budget had been spent. The National Bank 2000 team continued to carry out its mandate, set to end in the middle of fiscal 2000. In accordance with generally accepted accounting principles, these expenses are recorded in the results of the fiscal year in which they are incurred.

The Bank began by establishing very stringent standards to test its information technology systems and applications, convert those that were problematic and have them certified as Year 2000 compliant. Once the standards had been established, an inventory was taken and the analysis and certification process got under way.

By the end of March 1999, all the Bank's main information systems and applications had been tested, converted (or replaced, if necessary) and certified Y2K compliant. Aggregate trials were then carried out to check systems that interface with others, namely, in the area of interbank liaisons, credit cards and telecommunications.

Another series of preventive initiatives was launched by the Bank to check on the progress made by its various clients, suppliers and partners in making their own systems Y2K compatible. All of them were checked and steps were taken with regard to suppliers who posed a significant risk. The Bank developed a risk management policy and specific programs to ensure that its business clients managed their transition to the year 2000 in such a way as to represent no great risk. Additional measures taken included:

- As of June 1, 1999, a nine-month moratorium was imposed on all new computer development so as not to compromise environments already certified Y2K compliant.
- A very strict compliance maintenance process was established, under which no exceptions or adjustments were approved unless they were absolutely necessary and did not affect the Bank's key computer systems.
- A contingency plan, which consisted of analyzing the risks inherent in each component of the Bank and implementing replacement solutions, was developed to ensure continuity of the Bank's operations.

In the opinion of management, the National Bank has ensured that the necessary preparations have been carried out so that its systems will function normally during the changeover to the year 2000 and it can continue to operate. In this respect, the Bank has guaranteed its clients that their accounts are safe and that the financial data in their files will be consistently protected before, during and after January 1, 2000. The Bank's confidence rests on the results of the process described above. Its approach of keeping business clients informed and monitoring their progress allows the Bank to believe that neither the credit risk of its portfolio nor its results will be materially affected. However, management cannot be certain that no problem will arise, particularly in light of factors that are beyond its control and which depend on the diligence of clients, suppliers and other third parties.

Interest rate risk management

Analyzing interest rate sensitivity gaps is one of the methods used to control interest rate risk. The breakdown of assets and liabilities by maturity illustrates the sensitivity of the Bank's balance sheet to interest rate fluctuations as at October 31, 1999 (see Note 20 of the financial statements, page 73).

The net sensitivity gap for maturities of one year and under went from a liability-sensitive position of $1.7 billion as at October 31, 1998 to an asset-sensitive position of $1.0 billion as at October 31, 1999.

The use of derivatives greatly contributed to extending the average maturity of the Bank's net assets, thereby making its interest spread less sensitive to changes in interest rates. In fact, by using derivatives, the Bank increased the position of net gaps for maturities of under one year by $1.8 billion.

Another risk assessment method used by the Bank is to measure the impact of interest rate movements on net interest income and on the present value of shareholders' equity.

The Bank structured the investment sensitivity gaps for maturities of one year and under in such a way as to minimize the impact of interest rate fluctuations on the interest spread. Based on the matching position of the Bank as at October 31, 1999, simulations demonstrate that an immediate and sustained 1% rise in interest rates would increase net interest income by approximately $3.5 million (before taxes) over 12 months and reduce the present value of shareholders' equity by $60.1 million (before taxes).

To complement the traditional tools used for measuring financial risk, the Bank applies a VAR methodology to trading activities. According to simulations, if potential losses with a probability of 0.5% or less are excluded, the VAR of trading activities as at October 31, 1999 was limited to $1.4 million in foreign exchange operations, $2.5 million in interest rate operations and $3.9 million in equity trading. The VAR of these types of operations combined amounted to $4.9 million. These amounts are considerably lower than the notional amount of the derivatives used for trading purposes.

Analysis of off-balance sheet risk exposure

Risks are also linked to off-balance sheet activities, which consist of credit instruments and derivatives. These financial instruments are usually components of portfolios which include balance sheet items and, as such, are subject to the full range of control measures described earlier. In addition, credit instruments must comply with the same credit policies as loan operations recorded on the balance sheet. Additional control measures are also applied to derivatives.

FISCAL YEAR 1998-1999

Table 8 (page 41) provides a breakdown of the risk-weighted credit equivalent amount of the various off-balance sheet items included in the calculation of total risk-weighted assets. They represent a relatively low proportion in comparison to the other credit risks recorded on the balance sheet. Off-balance sheet items accounted for 16.8% of risk-weighted total assets, compared to 12.4% in 1998. More active portfolio management accounted for this increase.

Note 18 to the financial statements (pages 69 to 71) presents the notional (or nominal) amounts of derivatives used by the Bank as well as the maturity profile as at September 30, 1999. It should be noted that most of these instruments have short maturities: 88% of interest rate contracts and 82% of foreign exchange contracts mature within 12 months.

These notional amounts are not necessarily representative of the risk level but rather reflect the high number of transactions.

The data on the risk-weighted equivalent amount confirm the low proportion of derivatives on the balance sheet.

The derivative financial instruments used by the Bank (forwards, futures, swaps and options) are contracts whose value is derived mainly from interest rates and foreign exchange rates and, to a lesser extent, commodity prices and equity prices.

Derivatives are the strategic tool of choice for risk management. Accordingly, the Bank uses them for trading activities and asset/liability management.

The Bank uses its trading portfolio to carry out market-making or trading operations and to position itself on markets. The Bank also makes its expertise in risk management available to its commercial and institutional clients by offering management solutions for risk exposure. Derivatives are needed to control the risks of trading activities.

Derivatives are also one of the balance sheet tools available for managing interest rate and foreign exchange risk exposure as well as asset and liability matching. It is essential that these risks, which are a normal part of banking, be managed in order to protect the interest spread and the present value of capital.

For trading activities, transactions are accounted for on a mark-to-market basis. For asset/liability management operations, the derivatives are accounted for on an accrual basis in order to match the accounting treatment of the assets and liabilities being hedged.

The risks inherent in derivatives are similar to the general risks for financial instruments. They include most notably market risk, credit risk, liquidity risk and legal risk.

Market risk is defined as the potential for a deterioration in the value of a derivative instrument because of fluctuations in the underlying primary instrument (interest rates or foreign exchange rates). All derivative risks are accurately measured, re-evaluated on a daily basis and managed in accordance with the policies approved by the Bank's Board of Directors.

Credit risk, also known as the credit equivalent amount, is the value of the loss incurred in the event a counterparty fails to honour its commitments. It is measured by taking into account the replacement cost of the contract (if it is positive), future credit risk exposure (which is the estimated change in the value of the contract to maturity) and the impact of master netting agreements.

Liquidity risk consists of two elements: market liquidity and cash flow. In the first instance, risk exposure stems from a possible delay in settling a position when, for example, the market lacks sufficient depth. The Bank controls this risk by taking relatively short positions and by operating on markets where its positions represent only a very small proportion of total volume.

In the second instance, cash flow risk derives from the timing of cash receipts and outflows and is managed as part of the Bank's overall liquidity management process.

Legal risk exists where there is a possibility that a counterparty does not have the necessary legal power to enter into a transaction or the legal documents for such a transaction are deficient. The Bank manages this risk by applying the necessary checks and controls and by working with the national and international organizations that set the standards to be respected.

In addition to being managed as part of the Bank's general risk management policies, derivative risk exposure is also subject to special assessment and control measures. An independent unit within the Bank is responsible for monitoring financial transactions and administering risk control systems. The duties of this unit include ensuring that transactions are settled and recorded, measuring position risk, checking that the policies adopted by the Board of Directors are applied and controlling the quality of analysis systems.

The Bank limits credit risk exposure related to derivatives in various ways. For instance, in dealings with certain counterparties, it reduces its exposure by means of netting or mark-to-market agreements. In addition, credit risk exposure is reduced substantially when the relevant instruments are listed on a stock exchange. It will be noted that most of the credit equivalent amount for derivatives is contracted with reliable counterparties, particularly major banks and OECD-member countries.

CONCLUSION

Fiscal 1999 was characterized by excellent results, continuing the trend of previous years: higher net income, superior profitability, accelerated diversification, growth in personal loans and loans to SMEs, growth in personal savings, a significant increase in shareholders' equity, and a stronger capital structure.

In 1999, the Bank positioned itself for further growth, with all three of its major segments taking important steps toward securing their future development. With the acquisition of First Marathon and its integration into National Bank Financial, the Bank gained a nationwide presence in securities brokerage and became a true investment bank. It strengthened its leadership among small and medium-sized enterprises and laid the groundwork for expansion in this market in other regions of Canada. It also consolidated its position among individuals, notably through the headway made in wealth management. By grouping together its components under a single brand identified with its name, the National Bank also opened the way for more effective synergies and marketing activities.

Many challenges still remain given today's constantly changing world and competitive financial environment. Successfully meeting these challenges will hinge on improving ROE by diversifying revenue streams and controlling expenses and loan losses.

The Bank has all the essential components to ensure even greater success in the future, namely, a well-established clientele in its core market, competent and flexible personnel, a diversified range of financial products, profitable niches and a vast geographic territory. Clients and investors alike have every reason to place their trust in the National Bank.

From 1995 to 1999, the Bank's total assets grew by $20,888 million, for an increase of 42.7%.

During this period, total revenues (taxable equivalent basis) rose by 36.5%, net interest income (taxable equivalent basis) by 11.7%, and other income by 77.5%. Moreover, other income accounted for 48.9% of total revenues in 1999, up from 37.6% in 1995.

During the past four years, deposit liabilities (aggregate deposits on the Bank's balance sheet) went from $40,424 to $49,984 million, for an increase of 23.6%. Personal deposits declined by 5.0% while commercial deposits and purchased funds rose by 36.3% and 65.8% respectively. The proportion of core deposits went from 68.8% to 58.1%.

Additional Financial Information

FISCAL YEAR 1998-1999

TABLE 1 – OVERVIEW OF RESULTS

Year ended October 31
(taxable equivalent basis, millions of dollars and as a percentage of average assets)

	1999 $	1999 %	1998 $	1998 %	1997 $	1997 %	1996 $	1996 %	1995 $	1995 %
Net interest income	**1,319.2**	**1.90**	1,310.4	1.99	1,323.9	2.38	1,142.2	2.32	1,180.6	2.48
Other income (1)	**1,263.2**	**1.82**	1,142.5	1.73	1,055.6	1.90	970.1	1.97	711.6	1.50
Provision for credit losses	**185.0**	**0.27**	193.4	0.29	290.0	0.52	235.0	0.48	255.0	0.54
Operating expenses	**1,662.7**	**2.40**	1,577.5	2.39	1,477.8	2.65	1,402.1	2.85	1,219.3	2.56
Income taxes	**275.1**	**0.39**	259.2	0.39	243.1	0.44	135.8	0.28	156.3	0.33
Non-controlling interest	**31.8**	**0.04**	31.2	0.05	16.0	0.03	10.1	0.02	6.6	0.02
Income before goodwill charges	**427.8**	**0.62**	391.6	0.60	352.6	0.64	329.3	0.66	255.0	0.53
Goodwill charges	**10.8**	**0.02**	75.8	0.12	11.0	0.02	11.0	0.02	10.0	0.02
Net income	**417.0**	**0.60**	315.8	0.48	341.6	0.62	318.3	0.64	245.0	0.51
Average assets	**69,387**		65,873		55,685		49,239		47,582	

(1) As of 1996, trading activities and gains or losses on investment account securities are recorded under other income.

TABLE 2 – CHANGES IN NET INTEREST INCOME

Year ended October 31
(taxable equivalent basis, millions of dollars and as a percentage of average assets)

	1999 Average volume $	1999 Rate %	1999 Interest $	1998 Average volume $	1998 Rate %	1998 Interest $	1999-1998 Average volume $	1999-1998 Rate %	1999-1998 Interest $	$ Variation due to: Average volume	$ Variation due to: Rate
Assets											
Deposits with financial institutions	**3,809**	**4.88**	**185.8**	4,742	5.25	248.8	(933)	(0.37)	(63.0)	(45.5)	(17.5)
Securities	**15,491**	**3.22**	**498.7**	10,344	2.94	304.4	5,147	0.28	194.3	165.7	28.6
Mortgage loans	**13,931**	**6.59**	**917.6**	13,714	6.67	915.1	217	(0.08)	2.5	14.3	(11.8)
Personal loans	**7,485**	**7.74**	**579.6**	6,785	8.25	559.9	700	(0.51)	19.7	54.2	(34.5)
Business and other loans	**22,683**	**5.76**	**1,306.5**	25,535	5.07	1,294.7	(2,852)	0.69	11.8	(164.3)	176.1
Impaired loans, net	**88**	**0.91**	**0.8**	355	0.37	1.3	(267)	0.54	(0.5)	(2.4)	1.9
Earning assets	**63,487**	**5.50**	**3,489.0**	61,475	5.41	3,324.2	2,012	0.09	164.8	22.0	142.8
Other assets	**5,900**	**–**	**–**	4,398	–	–	1,502	–	–		
Total assets	**69,387**	**5.03**	**3,489.0**	65,873	5.05	3,324.2	3,514	(0.02)	164.8		
Liabilities and shareholders' equity											
Personal deposits	**19,778**	**3.98**	**787.7**	19,842	3.97	788.0	(64)	0.01	(0.3)	(2.4)	2.1
Deposit-taking institutions	**7,187**	**4.79**	**344.2**	8,986	5.31	477.5	(1,799)	(0.52)	(133.3)	(86.2)	(47.1)
Other deposits	**20,499**	**4.47**	**917.1**	15,400	4.47	688.0	5,099	–	229.1	227.9	1.2
	47,464	**4.32**	**2,049.0**	44,228	4.42	1,953.5	3,236	(0.10)	95.5	139.3	(43.8)
Bank debentures	**1,041**	**7.34**	**76.4**	1,014	7.51	76.2	27	(0.17)	0.2	2.0	(1.8)
Liabilities other than deposits	**11,694**	**1.09**	**127.6**	13,113	0.88	115.2	(1,419)	0.21	12.4	(15.5)	27.9
Other (1)	**–**	**–**	**(83.2)**	–	–	(131.1)	–	–	47.9	–	47.9
Interest-bearing liabilities	**60,199**	**3.60**	**2,169.8**	58,355	3.45	2,013.8	1,844	0.15	156.0	125.8	30.2
Other liabilities	**6,272**	**–**	**–**	4,648	–	–	1,624	–	–		
Shareholders' equity	**2,916**	**–**	**–**	2,870	–	–	46	–	–		
Total liabilities and shareholders' equity	**69,387**	**3.13**	**2,169.8**	65,873	3.06	2,013.8	3,514	0.07	156.0		
Impact of non-interest bearing assets and liabilities										170.6	(170.6)
Net interest income		**1.90**	**1,319.2**		1.99	1,310.4		(0.09)	8.8	66.8	(58.0)

(1) Other interest income and interest expense including hedging operations.

TABLE 3 – OTHER INCOME

Year ended October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Capital market fees	**336**	313	313	244	193
Deposit and payment service charges	**150**	144	132	123	133
Trading activities and gains on investment account securities, net	**120**	94	153	180	–
Card service revenues	**143**	123	95	69	64
Lending fees	**167**	146	115	99	83
Acceptances, letters of credit and guarantee	**58**	44	41	35	31
Foreign exchange revenues	**50**	46	39	50	51
Trust services	**33**	31	28	20	21
Other	**206**	201	140	150	136
	1,263	1,142	1,056	970	712
Domestic	**1,206**	1,099	1,024	852	680
International – United States	**37**	37	29	32	24
– Other	**20**	6	3	86	8
Other income as a percentage of total revenues on a taxable equivalent basis	**48.9 %**	46.6 %	44.4 %	45.9 %	37.6 %

As of 1996, trading activities and gains or losses on investment account securities are recorded under other income.

TABLE 4 – PROVISION FOR CREDIT LOSSES AND ALLOWANCES

Year ended October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Provision for credit losses					
Domestic					
Individuals and small businesses	**77**	58	100	115	69
Commercial	**75**	44	52	45	41
Corporate	**3**	2	17	4	34
Real estate	**12**	10	60	26	33
Other	**–**	1	2	–	–
Domestic – Private risks	**167**	115	231	190	177
International					
Commercial – United States	**15**	44	10	5	4
Real estate – United States	**–**	31	21	39	26
Real estate – Other	**–**	–	–	(8)	–
Other	**3**	3	13	9	4
International – Private risks	**18**	78	44	45	34
General allowance for credit risk	**–**	–	100	–	44
Designated countries	**–**	–	(85)	–	–
Provision for credit losses charged to income	**185**	193	290	235	255
Net average loans and acceptances					
Domestic	**38,928**	35,550	32,671	29,424	28,382
International – United States	**4,342**	4,864	4,249	3,967	3,179
– Other	**213**	790	577	644	1,481
Total	**43,483**	41,204	37,497	34,035	33,042
Provision for credit losses as a percentage of net average loans and acceptances					
Domestic	**0.43 %**	0.32 %	0.71 %	0.65 %	0.62 %
International – United States	**0.35 %**	1.54 %	0.73 %	1.11 %	0.94 %
– Other	**1.41 %**	0.38 %	2.25 %	0.16 %	0.27 %
Total	**0.43 %**	0.47 %	0.77 %	0.69 %	0.77 %
Allowances					
Balance at beginning of year	**1,049**	839	751	792	819
Retroactive application of new accounting standard as at November 1, 1995	**–**	–	–	77	–
Provision for credit losses charged to income	**185**	193	290	235	255
Write-offs (1)	**(276)**	(328)	(242)	(364)	(313)
Recoveries	**31**	45	40	11	31
Adjustment to general allowance (see Note 26, page 79)	**–**	300	–	–	–
Balance at end of year	**989**	1,049	839	751	792
Components of allowances					
Designated countries					
Portion related to loans	**37**	40	52	69	85
Portion related to securities	**16**	17	4	85	105
Specific	**436**	492	583	497	502
General	**500**	500	200	100	100

(1) Including exchange rate fluctuations.

TABLE 5 – OPERATING EXPENSES

Year ended October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Salaries and staff benefits	**887**	822	781	705	637
Premises, computers and equipment, including amortization	**390**	374	346	316	293
Other					
Messenger services and communications	**65**	60	57	55	50
Advertising and external relations	**37**	37	31	32	27
Stationery	**22**	21	19	16	14
Loan and deposit insurance	**24**	38	40	37	36
Professional fees	**76**	69	66	48	42
Travel expenses	**14**	13	11	11	11
Security and theft	**11**	11	10	12	10
Capital and payroll taxes	**38**	50	48	48	39
Other	**98**	82	69	122	60
	385	381	351	381	289
Total	**1,662**	1,577	1,478	1,402	1,219
Domestic	**1,573**	1,491	1,405	1,327	1,154
International – United States	**75**	68	53	54	47
– Other	**14**	18	20	21	18
Operating expenses as a percentage of total revenues (taxable equivalent basis)	**64.4%**	64.3%	62.1%	66.4%	64.4%
Excluding National Bank Financial	**59.8%**	60.1%	58.6%	64.1%	61.7%

TABLE 6 – DEPOSITS

As at October 31
(millions of dollars)

	1999		1998		1997		1996		1995	
	$	%	$	%	$	%	$	%	$	%
Personal	**20,316**	**40.6**	19,897	41.4	20,413	47.2	22,413	55.9	21,389	52.9
Commercial	**8,737**	**17.5**	9,828	20.5	7,709	17.8	7,056	17.6	6,411	15.9
Purchased funds	**20,931**	**41.9**	18,301	38.1	15,148	35.0	10,656	26.5	12,624	31.2
Total	**49,984**	**100.0**	48,026	100.0	43,270	100.0	40,125	100.0	40,424	100.0
Domestic	**30,429**	**60.9**	30,886	64.3	29,158	67.4	32,471	80.9	30,197	74.7
International – United States	**5,518**	**11.0**	6,292	13.1	5,474	12.6	3,597	9.0	3,359	8.3
– Other	**14,037**	**28.1**	10,848	22.6	8,638	20.0	4,057	10.1	6,868	17.0
Total	**49,984**	**100.0**	48,026	100.0	43,270	100.0	40,125	100.0	40,424	100.0
Personal deposits as a percentage of total assets		**29.1**		28.2		30.8		42.2		43.7

TABLE 7 – SOURCE OF CAPITAL

As at October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Non-controlling interest	**443**	523	466	42	36
Bank debentures	**1,035**	966	1,069	1,016	1,177
Shareholders' equity					
Preferred shares	**317**	317	376	376	376
Common shares	**1,641**	1,327	1,309	1,268	1,234
Retained earnings	**1,343**	1,051	1,075	855	701
	3,301	2,695	2,760	2,499	2,311
Total capital	**4,779**	4,184	4,295	3,557	3,524
Internally generated capital					
Net income	**417**	316	342	318	245
Other amounts affecting retained earnings	**22**	(200)	2	(56)	(18)
	439	116	344	262	227
Less: dividends	**(147)**	(140)	(124)	(108)	(104)
	292	(24)	220	154	123
External financing					
Non-controlling interest	**(80)**	57	424	6	(8)
Bank debentures	**69**	(103)	53	(161)	(64)
Preferred shares	**–**	(59)	–	–	(156)
Common shares	**314**	18	41	34	27
	303	(87)	518	(121)	(201)
Increase (decrease) in capital	**595**	(111)	738	33	(78)

TABLE 8 – CAPITAL RATIOS

As at October 31
(millions of dollars) (in accordance with BIS guidelines)

	1999 (3)	1998	1997	1996 (2)	1995
Tier 1 capital					
Common shareholders' equity	**2,984**	2,378	2,384	2,123	1,935
Non-cumulative permanent preferred shares	**317**	317	317	317	317
Non-controlling interest	**443**	523	466	42	36
Less: goodwill	**(350)**	(81)	(154)	(161)	(159)
	3,394	3,137	3,013	2,321	2,129
Tier 2 capital					
Cumulative preferred shares	**–**	–	59	59	59
Bank debentures	**1,271**	911	947	1,064	1,078
General allowance for credit risk	**328**	300	200	–	–
Less: investments in affiliated corporations	**(125)**	(3)	(3)	(1)	(1)
Less: first loss protection	**(3)**	–	–	–	–
	1,471	1,208	1,203	1,122	1,136
Total capital	**4,865**	4,345	4,216	3,443	3,265
Risk-weighted balance sheet items					
Cash resources	**675**	882	981	761	1,019
Securities	**2,126**	583	2,282	2,861	2,334
Mortgage loans	**3,707**	4,335	4,200	4,156	4,118
Other loans	**24,405**	24,181	22,202	20,143	19,144
Other assets	**4,729**	4,429	4,022	3,098	2,500
	35,642	34,410	33,687	31,019	29,115
Risk-weighted off-balance sheet items (1)					
Letters of guarantee and documentary credit	**1,878**	1,645	1,193	1,174	1,121
Commitments to extend credit	**5,137**	2,819	2,293	1,358	1,086
Interest rate contracts	**65**	94	77	66	38
Foreign exchange contracts	**244**	443	158	136	197
Equity contracts	**72**	41	18	21	–
	7,396	5,042	3,739	2,755	2,442
Market risk items	**1,083**	1,195	–	–	–
Total risk-weighted assets	**44,121**	40,647	37,426	33,774	31,557
Assets to capital multiple (4)	**16.6**	17.0	16.4	17.1	16.0
Ratios					
Tier 1	**7.7%**	7.7 %	8.1 %	6.9 %	6.8 %
Tier 2	**3.3%**	3.0 %	3.2 %	3.3 %	3.6 %
Total	**11.0%**	10.7 %	11.3 %	10.2 %	10.4 %

(1) As at September 30.
(2) Taking into account the issue of $150 million in bank debentures on November 1, 1996.
(3) Taking into account the issue of US $250 million in bank debentures on November 2, 1999.
(4) The assets to capital multiple is calculated by dividing total balance sheet assets and direct credit substitutes by total capital as defined by capital adequacy requirements.

TABLE 9 – ASSETS UNDER ADMINISTRATION/MANAGEMENT

As at October 31
(millions of dollars)

	General Trust of Canada	National Bank Financial	National Bank Securities	Natcan Investment Management	NBC Clearing Services	Bank excluding subsidiaries	**Total 1999**	Total 1998
Assets under administration								
Institutional	29,508	1,313	–	–	505	–	**31,326**	25,771
Personal	–	41,225	3,808	–	–	–	**45,033**	26,344
Mutual funds	2,737	156	3,670	–	–	–	**6,563**	5,281
Mortgage loans sold to third parties	27	760	–	–	–	3,623	**4,410**	1,072
Total assets under administration	32,272	43,454	7,478	–	505	3,623	**87,332**	58,468
Assets under management								
Personal	2,804	–	–	–	–	–	**2,804**	2,787
Managed portfolios	–	1,683	1,729	7,892	–	–	**11,304**	7,625
Mutual funds	–	–	–	4,094	–	–	**4,094**	3,256
Total assets under management	2,804	1,683	1,729	11,986	–	–	**18,202**	13,668
Total assets under administration/ management	35,076	45,137	9,207	11,986	505	3,623	**105,534**	72,136

TABLE 10 – DISTRIBUTION OF LOANS BY BORROWER CATEGORY

As at September 30
(millions of dollars)

	1999		1998		1997		1996		1995	
	$	%	$	%	$	%	$	%	$	%
Personal (1)	**7,459**	**16.2**	5,975	12.4	5,870	14.0	5,330	14.1	5,307	15.0
Residential mortgage	**13,298**	**28.9**	14,158	29.3	12,998	30.9	11,550	30.5	10,904	30.9
Non-residential mortgage	**683**	**1.5**	648	1.3	699	1.7	608	1.6	781	2.2
Agricultural	**1,060**	**2.3**	942	1.9	847	2.0	713	1.9	689	2.0
Financial institutions	**2,760**	**6.0**	2,268	4.7	2,436	5.8	1,773	4.7	767	2.2
Manufacturing	**4,980**	**10.8**	5,076	10.5	3,786	9.0	3,422	9.0	3,480	9.9
Construction and real estate	**1,606**	**3.5**	2,194	4.5	2,158	5.1	2,501	6.6	2,728	7.7
Transportation and communications	**877**	**1.9**	815	1.7	655	1.6	574	1.5	688	1.9
Mines, quarries and energy	**608**	**1.3**	614	1.3	398	0.9	334	0.9	307	0.9
Forestry	**238**	**0.5**	269	0.6	252	0.6	242	0.6	264	0.7
Governments	**800**	**1.7**	724	1.5	557	1.3	520	1.4	488	1.4
Wholesale trade	**1,613**	**3.5**	1,431	3.0	1,346	3.2	1,209	3.2	1,216	3.4
Retail trade	**1,498**	**3.2**	1,729	3.5	1,293	3.1	1,221	3.2	1,377	3.9
Services	**2,339**	**5.1**	2,818	5.8	2,241	5.3	2,200	5.8	2,003	5.7
Securities purchased under resale agreements	**4,175**	**9.1**	6,812	14.1	4,133	9.8	3,062	8.1	2,313	6.6
Other	**2,072**	**4.5**	1,890	3.9	2,406	5.7	2,591	6.9	1,996	5.6
	46,066	**100.0**	48,363	100.0	42,075	100.0	37,850	100.0	35,308	100.0

(1) Includes consumer loans, credit cards and other personal loans.

TABLE 11 – REAL ESTATE LOANS

As at October 31
(millions of dollars)

	1999		1998		1997		1996		1995	
	$	%	$	%	$	%	$	%	$	%
Geographic distribution										
Canada										
Ontario	**168**	**28**	238	29	327	28	437	27	491	24
Quebec	**258**	**42**	287	35	405	34	503	31	562	27
Other	**18**	**3**	21	3	40	3	34	2	57	3
	444	**73**	546	67	772	65	974	60	1,110	54
United States										
California	**57**	**9**	79	10	149	13	232	15	302	14
New York	**19**	**3**	27	3	63	5	96	6	118	6
Illinois	**7**	**1**	28	4	55	4	114	7	144	7
Other	**85**	**14**	131	16	152	13	194	12	262	13
	168	**27**	265	33	419	35	636	40	826	40
Other	**–**	**–**	–	–	–	–	–	–	116	6
	612	**100**	811	100	1,191	100	1,610	100	2,052	100
By type of project										
Retail	**169**	**28**	233	29	358	30	414	26	511	25
Office	**192**	**31**	254	31	410	34	572	36	815	40
Residential	**64**	**10**	71	9	158	13	188	11	214	10
Industrial	**51**	**8**	78	10	78	7	110	7	157	8
Land	**28**	**5**	37	4	35	3	47	3	64	3
Other	**108**	**18**	138	17	152	13	279	17	291	14
	612	**100**	811	100	1,191	100	1,610	100	2,052	100
Allowances for credit losses	**64**		116		158		116		153	
Real estate loans, net	**548**		695		1,033		1,494		1,899	
As a percentage of shareholders' equity		**17**		26		37		60		82
As a percentage of loans and acceptances		**1**		1		2		4		5

TABLE 12 – DESIGNATED COUNTRIES

As at October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Loans and securities, gross					
Poland	–	–	–	–	90
Brazil	37	39	35	51	91
Argentina	–	–	–	51	51
Ivory Coast	14	14	18	18	18
Venezuela	–	–	–	15	15
Sudan	15	18	16	17	19
Morocco	–	–	–	–	28
Peru	13	14	13	22	22
Other	25	28	27	32	40
	104	113	109	206	374
Country risk allowance	53	57	56	154	190
Loans and securities, net of allowances	51	56	53	52	184
Allowances as a % of loans and securities	51.0 %	50.4 %	51.4 %	74.8 %	50.8 %
Loans and securities, net, as a % of shareholders' equity	1.5 %	2.1 %	1.9 %	2.1 %	8.0 %

Particulars, by country, of private-risk and sovereign-risk loans classified as restructured for previous years are as follows: 1998: Ivory Coast $13 million; 1997: Peru $12 million; 1996: Panama $6 million.

TABLE 13 – IMPAIRED LOANS

As at October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Private impaired loans, net					
Domestic					
Individuals and small businesses (1)	216	244	241	192	138
Commercial	240	216	190	175	194
Corporate	3	–	7	18	31
Real estate	33	31	38	61	98
Other	–	–	–	5	5
	492	491	476	451	466
International					
Commercial – United States	30	36	–	3	3
Real estate – United States	13	11	8	39	70
Real estate – Other	–	–	–	–	50
Other	7	7	8	5	13
	50	54	16	47	136
General allowance for credit risk (3)	(500)	(500)	(200)	(100)	(100)
Total private impaired loans, net	42	45	292	398	502
Impaired loans to designated countries					
Gross	38	42	57	77	94
Allowance	37	40	52	69	85
Total impaired loans of designated countries, net	1	2	5	8	9
Total impaired loans, net (2)	43	47	297	406	511
Private impaired loans, gross	978	1,037	1,075	995	1,104
Allowance for credit losses	936	992	783	597	602
Private impaired loans, net	42	45	292	398	502
Provisioning rate	95.7 %	95.7 %	72.8 %	60.0 %	54.5 %
As a percentage of net loans and acceptances					
Domestic – Private	1.2 %	1.2 %	1.1 %	1.3 %	1.5 %
International – Private	0.7 %	0.8 %	0.3 %	1.0 %	2.9 %
International – Designated countries	– %	– %	0.1 %	0.2 %	0.2 %
Total	0.1 %	0.1 %	0.6 %	1.0 %	1.5 %
As a percentage of common shareholders' equity	1.4 %	2.0 %	12.5 %	19.1 %	26.4 %

(1) Including $64 million in net consumer loans in 1999 (1998: $57 million; 1997: $42 million; 1996: $37 million; 1995: $39 million).
(2) The Bank has no loans classified as other past-due loans (90 days and over) except for those already designated as impaired.
(3) See Note 26 to the Consolidated Financial Statements on page 79 for the impact of the adjustment made to the general allowance for credit risk on October 31, 1998.

TABLE 14 – INTEREST ON IMPAIRED LOANS

Year ended October 31
(millions of dollars)

	1999	1998	1997	1996	1995
Interest on impaired loans					
Domestic	(8)	(9)	(19)	(20)	(18)
International	–	–	34	15	31
	(8)	(9)	15	(5)	13
Average impaired loans					
Domestic	45	292	400	354	427
International	8	39	50	96	149
	53	331	450	450	576
Interest as a % of average impaired loans					
Domestic	(17.8)%	(3.1)%	(4.8)%	(5.7)%	(4.2)%
International	– %	– %	68.0 %	15.6 %	20.8 %
Total	(15.1)%	(2.7)%	3.3 %	(1.1)%	2.3 %

Quarterly Results

FISCAL YEAR 1998-1999

(millions of dollars, except per share amounts)

	Net interest income (taxable equivalent basis) (1)	Other income (1)	Provision for credit losses	Operating expenses	Income before goodwill charges
1st Q	281	167	56	289	64
2nd Q	303	171	76	299	59
3rd Q	293	185	56	312	66
4th Q	304	189	67	319	66
1995	1,181	712	255	1,219	255
1st Q	281	214	44	325	78
2nd Q	280	230	44	399	73
3rd Q	292	299	104	337	101
4th Q	289	227	43	341	77
1996	1,142	970	235	1,402	329
1st Q	325	231	56	352	87
2nd Q	310	246	56	359	82
3rd Q	322	261	57	372	91
4th Q	367	318	121	395	93
1997	1,324	1,056	290	1,478	353
1st Q	329	286	50	384	103
2nd Q	320	300	49	398	98
3rd Q	331	285	46	398	101
4th Q	330	271	48	397	90
1998	1,310	1,142	193	1,577	392
1st Q	336	293	46	400	103
2nd Q	319	335	46	423	104
3rd Q	337	311	46	420	106
4th Q	327	324	47	419	115
1999	**1,319**	**1,263**	**185**	**1,662**	**428**

(1) As of 1996, trading activities and gains or losses on investment account securities are recorded under other income.

Goodwill charges	Net income	Income per common share before goodwill charges Basic	Income per common share before goodwill charges Fully diluted	Net income per common share Basic	Net income per common share Fully diluted	Dividends (thousands of dollars) Common	Dividends (thousands of dollars) Preferred	ROE before goodwill charges %	ROE %
3	61	0.33	0.33	0.31	0.31	16,173	10,167	13.0	11.1
2	57	0.30	0.30	0.29	0.28	16,256	9,968	12.0	10.5
2	64	0.34	0.34	0.33	0.33	16,327	9,983	12.9	11.4
3	63	0.35	0.34	0.33	0.32	16,393	9,370	12.7	11.0
10	245	1.32	1.31	1.26	1.24	65,149	39,488	12.6	11.0
3	75	0.43	0.43	0.41	0.41	18,926	6,855	16.0	14.0
2	71	0.40	0.40	0.39	0.38	20,667	6,787	14.9	13.2
3	98	0.57	0.56	0.55	0.54	20,769	6,724	20.1	17.7
3	74	0.42	0.42	0.41	0.41	20,893	6,675	14.4	12.8
11	318	1.82	1.81	1.76	1.74	81,255	27,041	16.4	14.5
3	84	0.48	0.48	0.46	0.45	20,980	6,563	16.0	14.2
2	80	0.44	0.44	0.44	0.44	25,398	6,537	15.0	13.6
3	88	0.50	0.49	0.47	0.47	25,551	6,538	15.7	14.0
3	90	0.51	0.50	0.49	0.48	25,587	6,538	15.6	14.1
11	342	1.93	1.91	1.86	1.84	97,516	26,176	15.6	14.0
3	100	0.56	0.56	0.55	0.54	25,658	6,608	16.8	15.3
3	95	0.53	0.53	0.52	0.52	29,079	6,701	16.0	14.6
3	98	0.55	0.54	0.53	0.52	29,142	6,720	15.5	14.1
67	23	0.49	0.48	0.09	0.09	29,213	6,495	13.8	2.5
76	316	2.13	2.11	1.69	1.67	113,092	26,524	15.5	11.6
2	101	0.56	0.56	0.55	0.55	29,241	6,044	16.4	15.5
2	102	0.57	0.56	0.56	0.55	29,255	6,044	16.7	15.8
2	104	0.58	0.57	0.57	0.56	31,031	6,043	15.9	15.1
5	110	0.59	0.58	0.56	0.55	33,964	6,044	16.7	14.4
11	**417**	**2.30**	**2.27**	**2.24**	**2.21**	**123,491**	**24,175**	**16.4**	**15.1**

	Impaired loans Net private	Impaired loans Designated countries Gross outstanding	Impaired loans Designated countries Allowance	Impaired loans Net total	Number of common shares (in thousands) Average	Number of common shares (in thousands) End of period	Per common share Book value	Per common share Stock trading range High	Per common share Stock trading range Low	Number of employees (1)	Number of branches in Canada
1st Q	620	96	88	628	161,714	161,740	11.30	10.00	8.63	10,774	643
2nd Q	556	96	86	566	162,545	162,573	11.51	10.25	9.00	10,576	644
3rd Q	530	96	87	539	163,259	163,279	11.74	11.50	10.13	10,796	641
4th Q	502	94	85	511	163,940	163,963	11.88	11.88	10.38	10,620	629
1995											
1st Q	399	94	86	407	164,575	164,594	11.86	11.38	10.38	11,514	648
2nd Q	395	93	84	404	165,330	165,348	12.13	12.00	11.00	11,295	649
3rd Q	392	81	72	401	166,161	166,182	12.53	12.00	11.05	11,568	632
4th Q	398	77	69	406	167,119	167,151	12.70	13.90	11.15	11,402	632
1996											
1st Q	387	75	68	394	168,046	168,315	13.04	14.40	13.20	11,668	665
2nd Q	394	55	50	399	169,163	169,369	13.36	16.80	13.75	11,584	659
3rd Q	392	54	49	397	170,121	170,250	13.68	18.25	15.65	11,736	643
4th Q	292	57	52	297	170,391	170,461	13.99	20.30	17.00	11,651	641
1997											
1st Q	290	57	54	293	170,762	170,986	14.47	24.60	20.35	11,837	642
2nd Q	289	36	35	290	171,126	171,210	14.79	31.25	22.80	11,815	640
3rd Q	290	39	37	292	171,401	171,518	15.19	30.85	27.10	12,149	639
4th Q	45	42	40	47	171,600	171,616	13.86	26.70	20.10	12,041	646
1998											
1st Q	43	40	38	45	171,850	172,024	14.27	26.20	22.60	12,315	646
2nd Q	48	37	36	49	172,153	172,214	14.70	24.50	19.90	12,164	646
3rd Q	48	39	38	49	172,294	172,320	15.23	23.15	18.55	12,337	648
4th Q	42	38	37	43	186,568	188,729	15.81	19.35	17.15	12,175	649
1999											

(1) On a full-time equivalent basis and excluding the subsidiary National Bank Financial.

Glossary of Financial Terms

ANNUAL REPORT 1999

Acceptance
Short-term debt security traded on the money market which a bank guarantees on behalf of a borrower, for a stamping fee.

Allowance for credit losses
Allowance taken to absorb anticipated credit-related losses (loans, acceptances, guarantees, letters of credit, deposits with financial institutions and derivatives). Allowance for credit losses includes country risk allowances, specific provisions and the general allowance. It is the sum of the annual provisions less write-offs, net of recoveries.

Asset-based lending
Loans or other forms of credit secured by assets belonging to the borrower (e.g. accounts receivable or inventory items) which are strictly controlled by the lender until settlement of the debt.

Assets under administration
Assets in respect of which a financial institution provides administrative services such as custodial services, collection of investment income, settlement of purchase and sale transactions and record-keeping. Assets under administration, which are beneficially owned by clients, are not reported on the balance sheet of the institution offering such services.

Assets under management
Assets managed by a financial institution which are beneficially owned by clients. Management services are more comprehensive than administrative services, and include selecting investments or offering investment advice. Assets under management, which may also be administered by the financial institution, are not reported on its balance sheet.

Average assets
Average of balance sheet assets.

Bank debenture
Unsecured debt instrument issued by a bank for which repayment, in the event of liquidation, ranks behind the claims of depositors and certain other creditors. Convertible debentures can be exchanged for shares at the option of the holder, the issuer or both.

Capital
Amount which would be owed to the holders of shares and bank debentures if assets had to be liquidated to reimburse depositors and other creditors. Capital consists of bank debentures, shareholders' equity and non-controlling interest

Capital ratios
Ratios of capital, as defined by regulatory authorities, to risk-weighted assets. The Bank for International Settlements (BIS) distinguishes two types of capital: Tier 1 capital, or base capital, consists of common shareholders' equity, non-cumulative preferred shares and non-controlling interest in subsidiaries less goodwill. Tier 2, or supplementary capital, consists of other preferred shares and the eligible portion of bank debentures, at their carrying value, plus the general allowance for credit losses, less investments in associated companies. Total regulatory capital, or total capital, is the sum of the various types of capital. In accordance with BIS rules, the Office of the Superintendent of Financial Institutions Canada defined a third tier of capital intended specifically to cover market risk, a risk which must also be covered by Tier 1 capital.

Common shareholders' equity
The portion of shareholders' equity that includes only the capital stock paid in by common shareholders (plus retained earnings) and represents the amount that would be owed to common shareholders if assets had to be liquidated to reimburse depositors and other creditors.

Derivatives
Financial contracts whose value is "derived" from interest rates, foreign exchange rates or equity prices. Derivatives are used in treasury operations as well as for hedging regular financial instruments. The most common types of derivatives include foreign currency or interest rate futures, swaps and options.

Foreign currency and interest rate swaps
Transactions in which counterparties agree to exchange, for a specified period, currencies and/or streams of interest payments (generally by exchanging a fixed rate for a floating one) based on an amount of notional principal.

Foreign currency future
Contractual obligation to buy or sell, on or before a specified future date, a given quantity of foreign currency at a given exchange rate.

Foreign currency or interest rate option
The right, but not the obligation, to buy (call option) or sell (put option) at or by a set date a given amount of foreign currency or securities at a set price (strike price).

Forward rate agreement
Contractual obligation to buy or sell, on or before a specified future date, a given quantity of a financial instrument at a given interest rate.

Guarantees and letters of credit
Irrevocable assurances that a bank will make payments for a client which cannot meet its financial obligations to third parties.

Impaired loan
A loan is considered impaired when, in the opinion of management, there is reasonable doubt as to the payment of principal or interest. Any loan where payments are 90 days past due falls into this category, unless there is no doubt as to the collectibility of principal and interest.

Liquid assets
Assets held as cash or securities easily convertible to cash, such as deposits with financial institutions and securities.

Matching
The process of equating asset and liability maturities as well as off-balance sheet items so as to minimize interest rate risk and exchange rate risk.

Net income per share
Net income available to holders of common shares, namely, net income less dividends on preferred shares, divided by the average number of common shares outstanding during the period in question.

Net interest income
Difference between the interest earned on assets and the interest paid on liabilities. When expressed as a percentage of average assets, it is called net interest margin or interest spread.

Notional principal
Contract amount used as a reference point to calculate payments for off-balance sheet instruments such as forward rate agreements and interest rate swaps. It is considered "notional" as the principal amount itself never changes hands.

Obligations related to securities sold under repurchase agreements
Financial obligations related to securities sold under an agreement according to which they will be repurchased on a specified date and at a specified price. Such an agreement is a form of short-term funding.

Point
Unit of measure equal to one percentage (1%).

Provision for credit losses
Amount added to the allowance for credit losses to bring it to a level that management considers adequate, taking into account write-offs and recoveries with respect to specific loans.

Return on common shareholders' equity (or ROE)
Net income, less dividends on preferred shares, expressed as a percentage of the average value of common shareholders' equity.

Risk weighting
Risk-weighting factors are applied to the face value of certain assets in order to present comparable risk levels. This procedure is also used to recognize the risk in off-balance sheet instruments by adjusting the notional value to balance sheet (or credit) equivalents and then applying the appropriate risk-weighting factors. Total risk-weighted assets are used in calculating the various capital ratios according to the rules of the Bank for International Settlements.

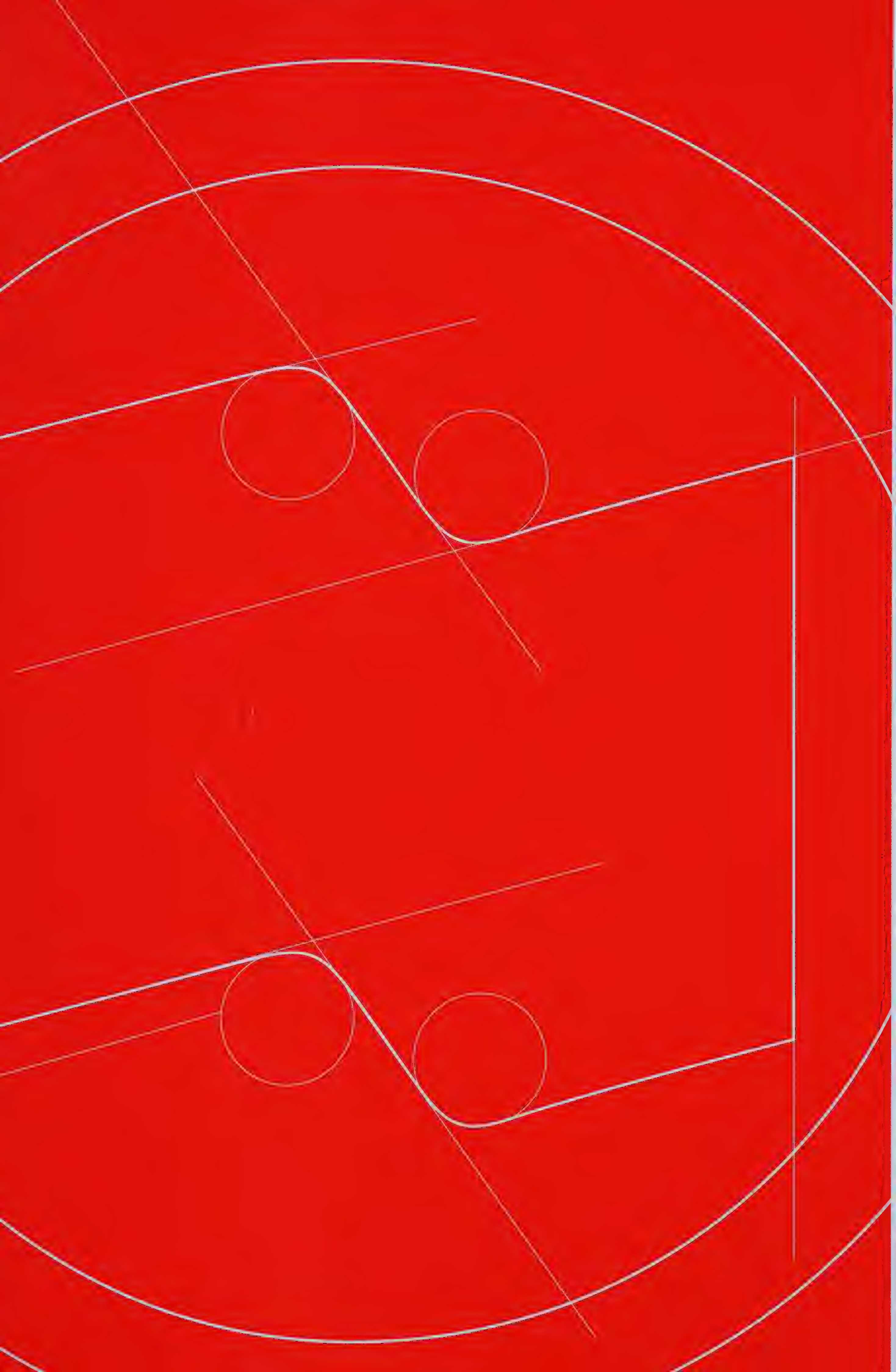
Securities purchased under reverse repurchase agreements
Securities purchased by the Bank from a client under an agreement according to which they will be resold to the same client on a specified date and at a specified price. Such an agreement is a form of short-term collateralized lending.

Securitization
Transaction in which certain assets, such as mortgages or credit card receivables, are sold to an entity which finances their acquisition by issuing negotiable securities.

Shareholders' equity
The sum of the capital stock paid in by shareholders and retained earnings. Shareholders' equity is the amount that would be owed to shareholders if assets had to be liquidated to reimburse depositors and other creditors.

Taxable equivalent basis
Calculation method used to gross up certain tax-exempt income (primarily dividends) by the income tax that would have been payable had it been taxable. The gross-up of such income permits a uniform comparison of the yield on the various types of assets, such as those comprising net interest income, regardless of their tax treatment.

Trading account
Liquid assets used for trading on financial markets. This account is recorded on the balance sheet at its fair value.



Management's Report

FISCAL YEAR 1998-1999

The financial statements of National Bank of Canada as well as the other financial information presented in the Annual Report were prepared by management, which is responsible for their integrity, including material estimates and judgements incorporated therein. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada (the "Superintendent").

Management maintains the necessary accounting and control systems in discharging its responsibility and ensuring that the Bank's assets are safeguarded. These controls include standards for hiring and training personnel, the definition and appraisal of tasks and functions, operating policies and procedures, and budget controls.

The Board of Directors (the "Board") is responsible for examining and approving the financial data which appear in the Annual Report. Acting through the Audit Committee, the Board also oversees the presentation of the financial statements and the maintenance of accounting and control systems.

The Audit Committee, composed of directors who are neither officers nor employees of the Bank, is responsible for the ongoing evaluation of internal control procedures, for examining the financial statements, and for recommending them to the Board for approval. A team of internal auditors reports to the Audit Committee and makes presentations to it on a regular basis.

The control systems are reinforced by the observation of laws and regulations which apply to the Bank's operations. The Superintendent regularly examines the affairs of the Bank to ensure that the provisions of the *Bank Act* with respect to the safety of the depositors and shareholders of the Bank are being observed and that the Bank is in a sound financial condition.

The independent auditors, whose report follows, were appointed by the shareholders on the recommendation of the Board. They were given full and unrestricted access to the Audit Committee to discuss matters related to their audit and the reporting of information.

André Bérard
Chairman of the Board and Chief Executive Officer

Michel Labonté
Senior Vice-President, Finance and Control

Montreal, November 23, 1999

Auditors' Report

FISCAL YEAR 1998-1999

To the Shareholders of National Bank of Canada

We have audited the Consolidated Balance Sheet of National Bank of Canada as at October 31, 1999 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirements of the Superintendent of Financial Institutions Canada under the *Bank Act*, as described in Note 1.

The consolidated financial statements for the year ended October 31, 1998 were audited by Samson Bélair/Deloitte & Touche, General Partnership, and Mallette Maheu, General Partnership, who expressed an opinion thereon without reservation in their report dated November 26, 1998.

Mallette Maheu
General Partnership
Chartered Accountants

PricewaterhouseCoopers LLP
Chartered Accountants

Montreal, November 23, 1999

Consolidated Statement of Income

FISCAL YEAR 1998-1999

Year ended October 31

(millions of dollars except per share amounts)	Note	1999	1998
Interest income and dividends			
Loans		**2,825**	2,792
Securities		**482**	332
Deposits with financial institutions		**186**	250
		3,493	3,374
Interest expense			
Deposits		**2,039**	1,885
Bank debentures		**76**	76
Other		**96**	106
		2,211	2,067
Net interest income		**1,282**	1,307
Other income			
Capital market fees		**336**	313
Deposit and payment service charges		**150**	144
Trading activities and gains on investment account securities, net		**120**	94
Card service revenues		**143**	123
Lending fees		**167**	146
Acceptances, letters of credit and guarantee		**58**	44
Foreign exchange revenues		**50**	46
Trust services		**33**	31
Other		**206**	201
		1,263	1,142
Total revenues		**2,545**	2,449
Provision for credit losses		**185**	193
		2,360	2,256
Operating expenses			
Salaries and staff benefits		**887**	822
Premises		**169**	164
Computers and equipment		**221**	210
Communications		**65**	60
Other		**320**	321
		1,662	1,577
Income before income taxes		**698**	679
Income taxes		**238**	256
		460	423
Non-controlling interest		**32**	31
Income before goodwill charges		**428**	392
Goodwill charges		**11**	76
Net income		**417**	316
Income per common share before goodwill charges			
– Basic		**2.30**	2.13
– Fully diluted		**2.27**	2.11
Net income per common share			
– Basic		**2.24**	1.69
– Fully diluted		**2.21**	1.67

Consolidated Balance Sheet

FISCAL YEAR 1998-1999

As at October 31

(millions of dollars)	Note	1999	1998
ASSETS			
Cash resources			
Cash and deposits with Bank of Canada		**459**	530
Deposits with financial institutions		**3,102**	4,322
		3,561	4,852
Securities			
Investment account		**7,117**	5,264
Trading account		**9,815**	10,175
		16,932	15,439
Loans			
Residential mortgage		**12,569**	13,413
Personal and credit card		**7,157**	5,976
Business and government		**20,685**	21,171
Securities purchased under reverse repurchase agreements		**3,480**	4,947
		43,891	45,507
Other			
Customers' liability under acceptances		**2,962**	2,658
Premises and equipment		**349**	344
Other assets		**2,106**	1,863
		5,417	4,865
		69,801	70,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Personal		**20,640**	20,213
Business and government		**22,724**	18,462
Deposit-taking institutions		**6,620**	9,351
		49,984	48,026
Other			
Acceptances		**2,962**	2,658
Obligations related to securities sold short		**4,696**	4,831
Obligations related to securities sold under repurchase agreements		**4,169**	8,315
Other liabilities		**3,654**	3,172
		15,481	18,976
Bank debentures		**1,035**	966
Shareholders' equity			
Preferred shares		**317**	317
Common shares		**1,641**	1,327
Retained earnings		**1,343**	1,051
		3,301	2,695
		69,801	70,663

André Bérard
Chairman of the Board and Chief Executive Officer

Jean Douville
Director

Consolidated Statement of Changes in Shareholders' Equity

FISCAL YEAR 1998-1999

Year ended October 31

(millions of dollars)	Note	1999	1998
Capital stock at beginning of year		**1,644**	1,685
Issuance of common shares		**314**	18
Redemption of preferred shares, Series 5, 7 and 8		**–**	(59)
Capital stock at end of year		**1,958**	1,644
Retained earnings at beginning of year		**1,051**	1,075
Net income		**417**	316
Dividends			
Preferred shares		**(24)**	(27)
Common shares		**(123)**	(113)
Income taxes related to dividends on preferred shares, Series 10, 11 and 12		**(1)**	(1)
Share issue expenses, net of income taxes		**–**	(2)
Unrealized foreign exchange gains (losses), net of income taxes of $14 (1998: ($27))		**23**	(14)
Adjustment to general allowance for credit risk, net of income taxes of $117		**–**	(183)
Retained earnings at end of year		**1,343**	1,051

Consolidated Statement of Cash Flows

FISCAL YEAR 1998-1999

Year ended October 31

(millions of dollars)	Note	1999	1998
Cash flows from operating activities			
Net income		**417**	316
Adjustments for:			
Provision for credit losses		**185**	193
Amortization of premises and equipment		**52**	51
Goodwill charges		**11**	76
Deferred income taxes		**(30)**	35
Adjustment upon foreign currency translation of bank debentures		**(22)**	60
Gains on sale of investment account securities, net		**12**	10
Change in interest payable		**63**	48
Change in interest receivable		**(44)**	(45)
Current income taxes		**124**	(91)
Increase in unrealized gains and amounts receivable on derivative contracts		**–**	(97)
Decrease in unrealized losses and amounts payable on derivative contracts		**81**	–
Net change in trading account securities		**360**	(4,162)
Other items, net		**(584)**	(192)
		625	(3,798)
Cash flows from financing activities			
Increase in deposits		**1,324**	4,756
Issuance of bank debentures		**250**	–
Redemption of bank debentures		**(159)**	(163)
Issuance of common shares		**13**	18
Redemption of preferred shares		**–**	(59)
Dividends paid		**(143)**	(137)
Net decrease (increase) in obligations related to securities sold short		**(135)**	606
Net decrease in obligations related to securities sold under repurchase agreements		**(4,146)**	(723)
Other items, net		**(11)**	(67)
		(3,007)	4,231
Cash flows from investing activities			
Net decrease (increase) in loans		**749**	(2,950)
Purchase of investment account securities, net of proceeds from sales		**(850)**	(1,267)
Net decrease in securities purchased under reverse repurchase agreements		**1,467**	4,208
Purchase of premises and equipment, less disposals		**(42)**	(48)
Acquisition of First Marathon Inc., less cash and cash equivalents acquired		**(196)**	–
Acquisition of shares of National Bank Financial & Co. Inc. held by non-controlling shareholders		**(37)**	–
		1,091	(57)
Net increase (decrease) in cash and cash equivalents		**(1,291)**	376
Cash and cash equivalents at beginning of year		**4,852**	4,476
Cash and cash equivalents at end of year		**3,561**	4,852
Cash and cash equivalents			
Cash and deposits with Bank of Canada		**459**	530
Deposits with financial institutions		**3,102**	4,322
Total		**3,561**	4,852
Interest paid		**2,148**	2,019
Income taxes paid		**159**	286

FISCAL YEAR 1998-1999

October 31, 1999
(Tabular amounts are in millions of dollars, unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with section 308(4) of the *Bank Act*, which states that Canadian generally accepted accounting principles are to be applied unless otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"). These principles differ in some regards from United States generally accepted accounting principles, as explained in Note 27.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the period covered by the financial statements. Actual results could differ from those estimates.

The significant accounting policies used in preparing these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized below. The Superintendent has specified an accounting requirement for the general allowance for credit risk which does not conform to generally accepted accounting principles. The accounting policies for all other financial statement items conform, in all material respects, to generally accepted accounting principles.

Consolidation

The consolidated financial statements of the Bank include the assets, liabilities and operating results of the Bank and all its subsidiaries. The purchase method is used to account for the acquisition of subsidiaries. Goodwill is amortized using the straight-line method over a period corresponding to its estimated useful life of 20 years. Goodwill is written down to fair value when the impairment in value is considered to be permanent, based on projected investment yield which takes into account the related risks.

Translation of foreign currencies

Items in foreign currencies included in the Consolidated Balance Sheet are translated into Canadian dollars at the exchange rates prevailing at year-end. Income and expenses are translated at the average exchange rates prevailing during the year.

Spot and forward foreign exchange positions are kept in balance insofar as practicable. Any gain or loss on these positions is recognized in the Consolidated Statement of Income, with the exception of positions related to net foreign currency investments in offices abroad.

Gains and losses on net foreign currency investments in branches and subsidiaries abroad are recorded under retained earnings, less the after-tax gains and losses applicable to instruments used for hedging purposes. These gains or losses are not charged to income until they are realized.

Cash and cash equivalents

Cash consists of cash on hand, bank notes and coin. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions, and cheques and other items in transit.

Securities

Securities are divided into two major categories: investment account securities and trading account securities.

Investment account securities are purchased with the intention of holding them to maturity. Equity securities are stated at their acquisition cost if the Bank does not have a significant influence while debt securities are stated at their unamortized acquisition cost. Premiums and discounts on debt securities are amortized using the yield method over the period to maturity of the related securities or, on occasion, until disposal of the security. Gains or losses realized on the disposal of securities and the amortization of premiums and discounts are recorded under income for the year. Any permanent impairment in the value of investment account securities is recorded under the year's income.

Trading account securities are purchased for resale in the short term. They are presented at their fair value based on publicly disclosed market prices. In the event market prices are not available, the fair value is estimated on the basis of the market prices of similar securities. Realized and unrealized gains or losses on these securities are recorded in income.

Investment account securities include loan substitute securities. These securities are customer financings which have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are recorded on the same basis as a loan.

FISCAL YEAR 1998-1999
October 31, 1999
(Tabular amounts are in millions of dollars, unless otherwise indicated)

1. **SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Loans

Loans are stated net of the allowance for credit losses and general allowance for credit risk.

A loan is considered impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal or interest or where payment of interest is contractually past due 90 days, unless there is no doubt as to the collectibility of principal and interest. A loan may revert to performing status only when principal and interest payments have become fully current.

When loans are deemed impaired, interest ceases to be recorded and the carrying value of the loans is adjusted to its estimated realizable amount by writing off all or part of the loan and/or by taking a provision for credit losses.

Foreclosed assets held for sale in settlement of an impaired loan are recorded at the time of foreclosure at the lower of the recorded balance of the foreclosed loan or the estimated net proceeds from the sale of the assets. Any difference between the carrying value of the loan and the estimated realizable amount of the assets is recorded to the provision for credit losses. The loan is then adjusted to take into account the revenues received or the costs incurred after foreclosure.

The provision for credit losses, recorded to income for the year, consists of the net change in the allowance for credit losses and write-offs of the carrying values resulting from foreclosed assets, less recoveries.

Fees and commissions related to the granting of loans and commitments to extend credit are amortized over the term thereof and recorded in the Consolidated Statement of Income.

Loans also include securities purchased under reverse repurchase agreements which the Bank has purchased and simultaneously committed to resell to the initial buyer at a specified price on a specified date. Since ownership of the securities does not change, the transaction is treated as a loan by the Bank. The securities are recorded at cost and the related interest income is recorded on an accrual basis.

Allowance for credit losses

The specific allowance related to loans considered impaired is established for all such loans for which the impairment could be estimated individually, reducing them to their estimated realizable amounts. For groups of loans consisting of large numbers of homogeneous balances of relatively small dollar amounts, the extent of impairment is estimated for each group of loans by applying formulas that take into account past loss experience, economic conditions and other relevant circumstances. The estimated realizable amounts are measured by discounting expected future cash flows.

The allowance for credit losses in relation to loans to countries designated by the Superintendent is constantly reevaluated on the basis of exposure in the various countries and the underlying economic conditions.

General allowance for credit risk (see Note 26)

On October 22, 1998, the Superintendent provided Guidance on establishing a general allowance for credit risk. The criteria for the general allowance for credit risk should include losses which management estimates to have occurred in the portfolio at the balance sheet date relating to individual loans or groups of loans not yet specifically identified as impaired. The general allowance for credit risk is not a substitute for the specific allowances that are set aside for impaired loans.

The general allowance was established by taking into consideration historical trends in the loss experience during an economic cycle, the current portfolio profile and estimated credit losses for the current phase of the economic cycle. In compliance with the Guidance provided by the Superintendent, any significant adjustment to the general allowance for credit risk, net of income taxes, was treated as a one-time charge to retained earnings in 1998, with no adjustment to opening retained earnings.

1. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Asset securitization

Mortgage loans

The Bank finances a portion of its mortgage loan portfolio through the mortgage-backed securities program provided for in the *National Housing Act*. Under this program, the Bank pools eligible mortgage loans and sells ownership rights in these pools to investors. Investors are paid a coupon rate set in advance and the principal from the underlying mortgages. The Canada Mortgage and Housing Corporation (CMHC) unconditionally guarantees the payments to the investors. The Bank continues to service the mortgage loans thus securitized.

The Bank is committed to the CMHC to make sufficient funds regularly available to the central payor and transfer agent to pay the amounts due to investors, whether or not the mortgagors have made their payments. Moreover, the Bank must place all funds due to investors at maturity of the securities at the disposal of the central payor and transfer agent. Should the Bank default, the CMHC can assign the servicing of the securitized loans to another servicer.

Issuance costs for mortgage-backed securities include the direct costs incurred in assembling and selling the securities and the discount at sale. These costs are charged in their entirety to the Consolidated Statement of Income at the time of sale by way of a deduction from the proceeds of the sale of securities.

The normal servicing fees which the Bank collects for servicing the securitized mortgage loans are set at 25 basis points. They are credited to other income when collected.

The Bank also collects a net interest spread over the life of the mortgage-backed securities. This spread is the interest collected from mortgagors less the sum of the interest paid to investors and the normal servicing fees.

The estimated present value of the net interest spread, based on the assumption that the annual mortgage prepayment rate is between 0% and 18%, is added to the proceeds from the sale of securities as a receivable and is included in establishing the gains or losses at the date of sale. This receivable is drawn down as mortgage payments are received and the resulting yield is charged to interest income.

Clients' credit card receivables

The securitization of credit card receivables consists in selling a portion of assets to a trust of which the Bank is not a beneficiary. These transactions are recorded as disposals when the significant risks and rewards of ownership of the receivables have been transferred and the amount of cash to be received can be estimated.

The purchase and sale contracts provide for the payment to the Bank of the proceeds of sale when the sum of interest and fees collected from customers exceeds the yield paid to investors on the assets, credit losses and other costs. Such proceeds are recorded as income when the amount is legally payable by the trust. The fees received for continuing to service the credit card receivables are recorded as income on an accrual basis.

Acceptances and customers' liability under acceptances

The potential liability of the Bank under acceptances is recorded as a liability in the Consolidated Balance Sheet. The Bank's potential recourse towards customers is recorded as an equivalent offsetting asset.

Premises and equipment

Premises and equipment are recorded at cost and amortized over their estimated useful lives according to the following methods and rates:

	Methods	Rates
Buildings	(a) or (b)	2% to 10%
Equipment and furniture	(a) or (b)	20% to 33 1/3%
Leasehold improvements	(a)	(c)

(a) straight-line
(b) diminishing-balance
(c) over the lease term plus the first renewal option

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1. SIGNIFICANT ACCOUNTING POLICIES (cont.)

Obligations related to securities sold short

These liabilities represent the Bank's obligation to deliver securities it sold but did not own at the time of sale. Gains and losses on the sale and changes in fair value are recorded to income for the year.

Obligations related to securities sold under repurchase agreements

These liabilities represent securities which the Bank sold and simultaneously committed to repurchase from the initial buyer at a specified price on a specified date. Since ownership of the securities did not change, the operation is treated as a loan to the Bank. The securities are recorded at cost and the interest expense is recorded on an accrual basis.

Income taxes

The Bank provides for income taxes under the income tax allocation method. Deferred income taxes result from timing differences in the recognition of various items for financial reporting and for income tax purposes, the main such items being the allowance for credit losses and the general allowance for credit risk. Deferred income taxes represent tax benefits with respect to deductions the Bank may claim to reduce its taxable income in future years.

No provision for deferred income taxes is taken for the portion of retained earnings of foreign subsidiaries which is permanently reinvested.

Derivative financial instruments

The Bank uses various types of derivatives to enable clients to manage their market risk exposures as well as for its own asset/liability management and trading purposes.

The main derivative instruments used by the Bank are foreign exchange forward contracts, futures, forward rate agreements, cross-currency and/or interest rate swaps and interest rate or foreign currency options.

To be designated as a non-trading derivative contract and receive hedge accounting treatment, the contract must substantially offset the effects of interest rate or foreign exchange rate exposures to the Bank, must be documented at inception as a non-trading derivative contract, and must have a high correlation at inception and throughout the contract period between the derivative contract and the hedged risk.

When asset/liability management derivatives are used to manage interest rate and foreign currency exposures, the resulting gains or losses realized are deferred and amortized to income over the life of the hedged assets or liabilities.

Derivatives used to enable clients to manage their market risk exposures and to generate income from the Bank's trading activities are marked to market and the resulting gains or losses are recorded to income.

Gains and losses on derivative instruments used to hedge firm commitments or anticipated transactions are deferred. They are recognized in income or as adjustments to the carrying value of the assets and liabilities which they hedge in the period that the committed or anticipated transactions occur. Anticipated transactions are hedged only when significant characteristics and expected terms of the anticipated transactions are identified and it is probable that the anticipated transaction will occur.

Insurance revenues and expenses

Premiums less claims and changes in actuarial liabilities are reflected in other income. Investment income is included in income from securities in the Consolidated Statement of Income. Administrative costs are recorded under operating expenses in the Consolidated Statement of Income.

Assets under administration

Assets under administration comprise assets under management, assets securitized and administered by the Bank as well as assets administered by the Bank in its capacity as custodian. Mutual fund assets managed by the Bank on behalf of its clients are considered assets under management. Assets under administration are not the property of the Bank and are not included in the Consolidated Balance Sheet.

1. **SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Pension plans and post-retirement benefits

Pension costs related to current services are charged to the Consolidated Statement of Income in the period during which the services are rendered. Past service costs, experience gains or losses and the funding excess existing on the date the accounting principle came into effect, which have not yet been charged to the Consolidated Statement of Income, are amortized over the expected average remaining service life of the employee group covered by the plans. The difference between the pension expense and the funding payments is recorded in the Consolidated Balance Sheet under "Other assets" or "Other liabilities", as applicable.

The Bank also offers a variety of post-retirement benefit plans such as health and dental care and life insurance coverage to its eligible retired employees and their dependents. The costs of these benefits are charged to income as they are incurred.

Stock option plan

The Bank provides compensation to certain employees in the form of a stock option plan. The exercise price for each option awarded is equal to the closing price of the common shares of the Bank on the Montreal Exchange or the Toronto Stock Exchange, whichever is higher, on the business day preceding the date of the award. When options are exercised, the proceeds to the Bank are credited to common shares.

Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 1998-1999.

2. **MORTGAGE-BACKED SECURITIES**

	1999	1998
Principal amount of securitized mortgage pools	**$3,420**	$1,637
Average rate of mortgage pools	**6.62%**	7.02%
Average coupon rate paid to investors	**5.11%**	5.41%
Maturity dates of securities	**December 1999 to December 2008**	December 1998 to February 2003
Present value of net interest spread	**$ 99**	$ 44

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3. SECURITIES

Securities held and effective yields on the investment account are as follows:

	Within 3 months $	Within 3 months %	3 to 6 months $	3 to 6 months %	6 to 12 months $	6 to 12 months %
Investment account						
Securities issued or guaranteed by						
Canada	44	7.0	549	5.1	423	5.7
Provinces	190	5.1	120	6.8	62	8.7
Municipalities or school boards	12	5.1	–	–	–	–
Debt securities	997	5.4	249	5.7	83	5.3
Equity securities						
Floating-rate preferred shares	84	3.6	–	–	–	–
Fixed-rate preferred shares	7	0.3	2	1.7	6	6.0
Other securities	–	–	–	–	–	–
Loan substitutes	13	4.5	–	–	–	–
Total investment account	1,347	5.3	920	5.5	574	6.0
Trading account						
Securities issued or guaranteed by						
Canada	564		575		1,443	
Provinces	248		146		50	
Municipalities or school boards	60		11		50	
Debt securities	287		18		61	
Equity securities						
Floating-rate preferred shares	–		–		–	
Fixed-rate preferred shares	–		–		–	
Other securities	–		–		–	
Total trading account	1,159		750		1,604	
Total securities	2,506		1,670		2,178	

- Where no organized market exists for which prices are publicly disclosed, the fair value is estimated using the market prices of similar securities.
- The calculation of the yield rate is based on annual average balances. The yield rate of tax-exempt securities has not been adjusted on a taxable equivalent basis.
- Debt securities include loans restructured as bonds under the Brady Plan, net of the country risk allowance. Such bonds are guaranteed by the United States government and have longer maturities and more favourable conditions for the borrowing country.

1 to 5 years $	1 to 5 years %	Over 5 years $	Over 5 years %	No specific maturity $	No specific maturity %	**1999 Carrying value $**	**1999 Carrying value %**	1998 Carrying value $	1998 Carrying value %
2,549	6.0	465	6.2	–	–	**4,030**	**5.7**	1,812	6.4
52	9.8	49	9.9	–	–	**473**	**6.1**	781	6.0
–	–	–	–	–	–	**12**	**5.1**	23	5.3
86	9.1	216	6.8	7	6.0	**1,638**	**5.8**	1,912	6.1
–	–	–	–	1	7.7	**85**	**1.9**	16	6.4
49	6.7	–	–	63	–	**127**	**0.7**	64	5.4
–	–	1	–	662	0.3	**663**	**0.3**	579	3.5
13	–	36	4.0	27	–	**89**	**1.8**	77	–
2,749	6.2	767	6.5	760	0.3	**7,117**	**5.1**	5,264	5.8
816		779		–		**4,177**		5,188	
248		806		–		**1,498**		1,319	
206		149		–		**476**		534	
316		373		14		**1,069**		2,786	
–		–		–		**–**		29	
–		–		4		**4**		1	
–		28		2,563		**2,591**		318	
1,586		2,135		2,581		**9,815**		10,175	
4,335		2,902		3,341		**16,932**		15,439	

	1999 Carrying value	1999 Gross unrealized gains	1999 Gross unrealized losses	**1999 Fair value**	1998 Carrying value	1998 Gross unrealized gains	1998 Gross unrealized losses	1998 Fair value
Investment account								
Securities issued or guaranteed by								
Canada	4,030	3	(21)	**4,012**	1,812	56	–	1,868
Provinces	473	12	–	**485**	781	17	–	798
Municipalities or school boards	12	–	–	**12**	23	–	–	23
Debt securities	1,638	4	(28)	**1,614**	1,912	29	(33)	1,908
Equity securities								
Floating-rate preferred shares	85	–	(1)	**84**	16	–	–	16
Fixed-rate preferred shares	127	–	(2)	**125**	64	–	(3)	61
Other securities	663	38	(14)	**687**	579	3	(23)	559
Loan substitutes	89	2	(3)	**88**	77	1	–	78
Total investment account	7,117	59	(69)	**7,107**	5,264	106	(59)	5,311

(Tabular amounts are in millions of dollars, unless otherwise indicated)

4. IMPAIRED LOANS

The table below sets out impaired loans as at October 31. The balance of impaired loans is reduced, as applicable, by the related allowances.

	Impaired loans	Allowance	1999 Carrying value, net	1998 Carrying value, net
Private impaired loans				
DOMESTIC				
Residential mortgage loans	72	8	**64**	76
Personal loans	86	22	**64**	56
Small business loans	128	40	**88**	112
Corporate loans	66	63	**3**	–
Commercial loans	457	217	**240**	216
Real estate loans	90	57	**33**	31
Other loans	5	5	**–**	–
	904	412	**492**	491
INTERNATIONAL				
Commercial loans – United States	34	4	**30**	36
Real estate loans – United States	20	7	**13**	11
Other loans	20	13	**7**	7
	74	24	**50**	54
General allowance for credit risk (1)	–	500	**(500)**	(500)
Total private impaired loans	978	936	**42**	45
Loans to designated countries	38	37	**1**	2
Total impaired loans	1,016	973	**43**	47

Foreclosed assets held for sale in settlement of impaired loans which are included in total impaired loans together with the related allowance for credit losses amounted to $47 million and $7 million respectively as at October 31, 1999 compared to $61 million and $5 million as at October 31, 1998.

(1) The general allowance for credit risk was taken for the Bank's loans in their entirety.

ALLOWANCE FOR CREDIT LOSSES AND GENERAL ALLOWANCE FOR CREDIT RISK

The changes made to allowances during the year are as follows:

	Specific allowance	General allowance for credit risk	Designated countries (loans and securities)	1999 Total	1998 Total
Allowance at beginning of year	492	500	57	**1,049**	839
Provision for credit losses charged to income	185	–	–	**185**	193
Adjustment to general allowance for credit risk (1)	–	–	–	**–**	300
Write-offs	(272)	–	(4)	**(276)**	(328)
Recoveries	31	–	–	**31**	45
Allowance at end of year	436	500	53	**989**	1,049
Portion related to loans	436	500	37	**973**	1,032
Portion related to securities	–	–	16	**16**	17

(1) In accordance with the Guidance provided by the Superintendent described in Note 1, the Bank increased as at October 31, 1998 its general allowance for credit risk by $300 million. This amount, less income taxes of $117 million, was recorded under 1998 retained earnings.

6. PREMISES AND EQUIPMENT

	Cost	Accumulated amortization	1999 Carrying value, net	1998 Carrying value, net
Land	20	–	**20**	21
Buildings	226	78	**148**	152
Equipment and furniture	397	301	**96**	88
	643	379	**264**	261
Leasehold improvements			**85**	83
			349	344
Amortization for the year recorded in the Consolidated Statement of Income			**52**	51

7. OTHER ASSETS

	1999	1998
Interest receivable	**403**	359
Deferred income taxes	**137**	164
Prepaid expenses and other receivables	**419**	302
Goodwill less accumulated amortization of $71 (1998: $60)	**350**	82
Prepaid pension expense	**91**	88
Brokers' client accounts	**262**	164
Present value of net interest spread on securitized mortgage loans	**99**	44
Other	**345**	660
	2,106	1,863

8. DEPOSITS

	Payable on demand	Payable after notice	Payable on a fixed date	1999 Total	1998 Total
Personal	1,323	5,099	14,218	**20,640**	20,213
Business and government	4,285	3,293	15,146	**22,724**	18,462
Deposit-taking institutions	140	96	6,384	**6,620**	9,351
	5,748	8,488	35,748	**49,984**	48,026

9. OTHER LIABILITIES

	1999	1998
Interest payable	**773**	710
Income taxes payable	**227**	103
Liabilities of subsidiaries	**227**	213
Non-controlling interest	**443**	523
Trade and other payables	**1,341**	1,202
Brokers' client accounts	**262**	164
Other	**381**	257
	3,654	3,172

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10. BANK DEBENTURES

The bank debentures, subordinated in right of payment to the claims of depositors and certain other creditors, consist of:

Maturity date		Interest rate	Characteristics	1999	1998
April	1999	7.325%	Yen 2 billion/AUD 18.3 million equivalent in 1998; interest payable annually in AUD at the rate indicated for the AUD equivalent on April 21	–	26
April	2001	10.50%	Interest payable semi-annually on April 5 and October 5; not redeemable prior to maturity	**17**	17
June	2001	12.50%	Convertible into 2,391,600 common shares, redeemable at the Bank's option on certain conditions; interest payable semi-annually on June 5 and December 5	**20**	20
December	2003	7.50%	Not redeemable by the Bank prior to maturity; interest payable semi-annually on June 30 and December 30	**125**	125
August	2004	8.125%	US $250 million; not redeemable by the Bank prior to maturity unless the debentures become subject to foreign taxes; interest payable semi-annually on February 15 and August 15	**368**	386
October	2004	6.92%	Yen 2 billion/£9 million equivalent in 1998; interest of 6.92% payable in £ at the rate indicated for the £ equivalent, thereafter payable annually in yen at the Japanese long-term prime rate plus 1% on October 25	–	27
October	2004	7.00%	Yen 4 billion/£18 million equivalent in 1998; interest payable annually in £ at the rate indicated for the £ equivalent on October 31	–	53
October	2011	7.50%	Not redeemable prior to October 17, 2001; interest payable semi-annually on April 17 and October 17 at a rate of 7.50% until October 17, 2006. Thereafter, interest payable at an annual rate equal to the 90-day Bankers' Acceptance rate plus 1%	**150**	150
April	2014	5.70%	Not redeemable prior to April 16, 2004; interest payable semi-annually on April 16 and October 16 at a rate of 5.70% until April 16, 2009. Thereafter, interest payable at an annual rate equal to the 90-day Bankers' Acceptance rate plus 1%	**250**	–
February	2087	floating	US $71 million bearing interest at an annual rate of 1/8% above LIBOR; interest payable semi-annually on February 28 and August 31; redeemable at the Bank's option since February 28, 1993	**105**	162
				1,035	966

The debenture maturities are as follows:

2000	–
2001	**37**
2002	–
2003	**125**
2004	**368**
2005 and thereafter	**505**

On November 2, 1999, the Bank issued US $250 million in bank debentures maturing in 2009. Interest is payable semi-annually on May 1 and November 1 of each year at a rate of 7.75%.

11. CAPITAL STOCK

Authorized

FIRST PREFERRED SHARES
An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $1 billion

SECOND PREFERRED SHARES
15,000,000 shares, without par value, issuable for a maximum aggregate consideration of $300 million

COMMON SHARES
An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $3 billion

Issued and fully paid

	1999	1998
First preferred shares		
3,680,000 shares, Series 10 (1998: 3,680,000)	**92**	92
4,000,000 shares, Series 11 (1998: 4,000,000)	**100**	100
5,000,000 shares, Series 12 (1998: 5,000,000)	**125**	125
	317	317
188,728,712 common shares (1998: 171,616,217)	**1,641**	1,327
	1,958	1,644

The Bank paid the following dividends:

				(dividends per share in dollars)	
	1999	1998	1997	1996	1995
Common shares	**0.70**	0.66	0.575	0.49	0.40
First Preferred Shares					
Series 5	**–**	3.9531	3.3670	4.8235	5.9462
Series 7	**–**	1.03065	0.8777	1.2576	1.5503
Series 8	**–**	0.9883	0.8417	1.2059	1.4865
Series 9	**–**	–	–	–	2.275771
Series 10	**2.1875**	2.1875	2.1875	2.1875	2.1875
Series 11	**2.00**	2.00	2.00	2.00	2.00
Series 12	**1.625**	1.625	1.625	1.625	1.625

Issuance of common shares (amounts in dollars)
On August 13, 1999, the Bank issued 16,250,000 shares for an amount of $301,275,000 as partial consideration for the acquisition of all the outstanding common shares of First Marathon Inc.

During the year ended October 31, 1999, 862,495 common shares were issued under the Dividend Reinvestment and Share Purchase Plan and the Stock Option Plan for an aggregate consideration of $12,476,345.

During the year ended October 31, 1998, 1,100,883 common shares were issued under the Dividend Reinvestment and Share Purchase Plan and the Stock Option Plan for an aggregate consideration of $16,063,252. In addition, 53,851 common shares were issued for an aggregate consideration of $1,653,227 relating to the acquisition of an interest in a brokerage firm.

Reserved common shares (amounts in dollars)
As at October 31, 1999, 2,391,600 (1998: 2,391,600) common shares were reserved for future conversion, 5,574,138 (1998: 5,894,231) common shares were reserved under the Dividend Reinvestment and Share Purchase Plan and 5,359,600 (1998: 5,902,002) common shares were reserved under the Stock Option Plan. As at October 31, 1999, 1,837,600 options were outstanding with a strike price ranging between $9.50 and $13.50 and maturities between December 1999 and December 2006. During the fiscal year, 542,402 options were exercised at strike prices ranging from $9.50 to $13.50. As at October 31, 1999, 1,063,000 options could be exercised.

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(Tabular amounts are in millions of dollars, unless otherwise indicated)

11. CAPITAL STOCK (cont.)

Characteristics of first preferred shares (amounts in dollars)

Series 10

Redeemable at the Bank's option on or after November 16, 2001 at $25 per share in cash plus accrued and unpaid dividends, or by conversion into common shares in accordance with the privileges and conditions related to such preferred shares; non-cumulative preferential dividends, payable quarterly in an amount of $0.546875 per share.

Convertible at the holder's option on or after February 18, 2002 into common shares or into another series of preferred shares if the Bank's Board of Directors should decide, by resolution at least 30 days prior to February 18, 2002, to authorize a further series of first preferred shares, subject to the prior approval of the Superintendent. The Bank may, upon notice of no less than two business days prior to the conversion date, redeem the preferred shares to be converted.

Series 11

Redeemable at the Bank's option on or after February 15, 2002 at $25 per share in cash plus accrued and unpaid dividends, or by conversion into common shares in accordance with the privileges and conditions related to such preferred shares; non-cumulative preferential dividends, payable quarterly in an amount of $0.50 per share.

Convertible at the holder's option on or after May 15, 2002 into common shares or into another series of preferred shares if the Bank's Board of Directors should decide, by resolution at least 30 days prior to February 15, 2002, to authorize a further series of first preferred shares, subject to the prior approval of the Superintendent. The Bank may, upon notice of no less than two business days prior to the conversion date, redeem the preferred shares to be converted.

Series 12

Redeemable at the Bank's option on or after May 15, 2001 at $25 per share in cash plus a premium, if redeemed before May 15, 2003, together with accrued and unpaid dividends, in accordance with the privileges and conditions related to such preferred shares and subject to the prior approval of the Superintendent; non-cumulative preferential dividends, payable quarterly in an amount of $0.40625 per share.

Convertible at the Bank's option on or after May 15, 2001 into common shares, subject to the approval of the stock exchanges on which any shares of the Bank are listed.

Convertible at the holder's option on or after May 15, 2004 into common shares in accordance with the privileges and conditions related to such preferred shares, or into another series of preferred shares if the Bank's Board of Directors should decide, by resolution at least 30 days prior to May 15, 2004, to authorize a further series of first preferred shares, subject to the prior approval of the Superintendent. The Bank may, upon notice of no less than two business days prior to the conversion date, redeem the preferred shares to be converted.

12. PENSION PLANS AND POST-RETIREMENT BENEFITS

The employee pension plans of the Bank provide for the payment of benefits based on the length of service and final average earnings of the employees covered. According to the latest actuarial valuation of these plans conducted as at December 31, 1997, the present value of accrued pension benefits, projected as at October 31, 1999, is $860 million and the adjusted market value of the assets of the plan as at October 31, 1999 amount to $1,017 million. The pension expense included in the Consolidated Statement of Income amounts to $3.7 million (1998: $6.6 million), taking into account the amortization on a straight-line basis over a 14-year period of the experience gains and losses and the funding excess existing on the date the accounting policy came into effect.

Post-retirement life insurance and health and dental care benefits are expensed as incurred, and amounted to $2.6 million in 1999 ($2.3 million in 1998).

13. WRITE-OFF OF GOODWILL

During the fiscal year ended October 31, 1998, the Bank determined that the $64 million unamortized balance of goodwill from the acquisition of General Trust of Canada had suffered a permanent impairment in value owing to profound changes in financial markets, lower-than-projected yields and the Bank's business plans. To determine the amount of this permanent impairment, the Bank took expected non-discounted cash flows and the return on its investment into account. Accordingly, the unamortized balance of goodwill was written off in 1998.

14. INCOME TAXES

The income taxes reported in the consolidated financial statements are as follows:

	1999	1998
Consolidated Statement of Income		
Income taxes	238	256
Consolidated Statement of Retained Earnings		
Income taxes related to:		
Adjustment to general allowance for credit risk	–	(117)
Dividends on preferred shares, Series 10, 11 and 12	1	1
Unrealized foreign exchange gains (losses)	14	(27)
	15	(143)
	253	113
The income taxes are as follows:		
Current	283	195
Deferred	(30)	(82)
	253	113

The Bank's effective income tax rate, on income before income taxes, is calculated as follows:

	1999		1998	
Income before income taxes	$698	100.0%	$679	100.0%
Income taxes at Canadian statutory income tax rate	$272	39.0%	$265	39.0%
Increase (reduction) in income tax rate due to:				
Tax-exempt income from securities, mainly dividends from Canadian corporations	(23)	(3.3)	(12)	(1.7)
Rate applicable to subsidiaries abroad	(13)	(1.9)	(9)	(1.3)
Federal large corporations tax and surtax	10	1.4	9	1.3
Other items	(8)	(1.1)	3	0.4
	(34)	(4.9)	(9)	(1.3)
Income taxes and effective income tax rate	$238	34.1%	$256	37.7%

15. INCOME PER COMMON SHARE

Basic income per share before goodwill charges and basic net income per share were calculated on the basis of income before goodwill charges and net income available for holders of common shares, less dividends on preferred shares, and the average number of common shares outstanding of 175,746,000 in 1999 (1998: 171,223,000).

Fully diluted income per share before goodwill charges and fully diluted net income per share were calculated on the basis of income before goodwill charges and net income available for holders of common shares, less dividends on non-convertible preferred shares, and the average number of common shares of 178,138,000 in 1999 (1998: 173,615,000), assuming that all securities convertible at the holder's option (except for preferred shares, Series 10, 11 and 12) were converted at the beginning of each fiscal year.

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16. COMMITMENTS

As at October 31, 1999, minimum commitments under leases, contracts for outsourced information technology services, and equipment and furniture leasing agreements were as follows:

	Premises	Service contracts	Equipment and furniture	Total
2000	78	87	8	**173**
2001	69	87	4	**160**
2002	59	3	2	**64**
2003	53	3	–	**56**
2004	46	–	–	**46**
2005 and thereafter	260	–	–	**260**
	565	180	14	**759**

17. CREDIT INSTRUMENTS

In the normal course of its business, the Bank enters into various off-balance sheet commitments. The credit instruments used to meet the financing needs of its clients represent the maximum amount of additional credit that the Bank could be obligated to extend if the commitments were fully utilized.

As at September 30	1999	1998
Letters of guarantee	**2,047**	2,187
Documentary letters of credit	**265**	222
Commitments to extend credit		
Original term of one year or less	**5,886**	9,050
Original term of more than one year	**11,550**	6,652

Letters of guarantee are firm commitments by the Bank to make payments on behalf of a client who is unable to meet its contractual obligations to a third party. They represent the same credit risk as loans.

Documentary letters of credit are documents issued by the Bank and are used in international trade to enable a third party to draw drafts on the Bank up to an amount established under specific terms and conditions and are collateralized by the delivery of the goods they represent.

Commitments to extend credit represent the unused portions of credit authorizations granted in the form of loans, acceptances, letters of guarantee and documentary letters of credit. The Bank is required at all times to make the unused portion of the authorization available, subject to certain conditions.

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for asset and liability management and for trading purposes. The derivatives used to manage the balance sheet serve to protect net interest income against the risk of fluctuations in interest and exchange rates. Trading activities enable clients to manage their risks and also include proprietary trading undertaken by the Bank.

The various derivative financial instruments listed in the tables below are defined as follows:

Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Futures are commitments to purchase or deliver securities or money market instruments on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

Interest rate and cross-currency swaps are transactions that generally involve the contractual exchange of fixed and floating rate interest payment obligations and/or currencies on a specified amount of notional principal for a specified period of time.

Foreign currency and interest rate options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed to when the option is arranged. The writer receives a premium for selling this instrument.

Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative financial instruments.

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18. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

						1999		1998
		Remaining term to maturity						
As at September 30	Contracts held for trading purposes	3 months and under	3 to 12 months	1 to 5 years	Over 5 years	**Total contracts**	Contracts held for trading purposes	Total contracts
Foreign exchange contracts								
OTC contracts								
Forwards	39,220	17,860	15,375	6,805	–	**40,040**	40,893	44,312
Swaps	353	1,021	1,951	4,036	6	**7,014**	333	2,238
Options purchased	7,937	4,498	3,028	376	35	**7,937**	14,632	14,632
Options written	8,871	4,548	3,862	461	–	**8,871**	14,857	14,857
TOTAL	56,381	27,927	24,216	11,678	41	**63,862**	70,715	76,039
Exchange-traded contracts								
Futures								
Long positions	36	36	–	–	–	**36**	37	37
Short positions	658	574	84	–	–	**658**	438	438
Options purchased	328	231	97	–	–	**328**	331	331
Options written	127	37	90	–	–	**127**	251	251
TOTAL	1,149	878	271	–	–	**1,149**	1,057	1,057
Interest rate contracts								
OTC contracts								
Forward rate agreements	13,009	15,757	3,995	–	–	**19,752**	24,519	25,031
Swaps	22,971	27,664	22,301	18,994	2,111	**71,070**	25,707	52,347
Options purchased	10,852	10,187	2,717	378	–	**13,282**	7,489	8,904
Options written	16,119	18,606	6,610	124	–	**25,340**	9,386	10,504
TOTAL	62,951	72,214	35,623	19,496	2,111	**129,444**	67,101	96,786
Exchange-traded contracts								
Futures								
Long positions	5,012	3,337	1,675	–	–	**5,012**	6,558	6,913
Short positions	4,530	1,559	2,721	250	–	**4,530**	4,646	5,406
Options purchased	18,031	5,950	12,081	–	–	**18,031**	12,228	15,778
Options written	18,595	5,986	12,609	–	–	**18,595**	20,169	23,718
TOTAL	46,168	16,832	29,086	250	–	**46,168**	43,601	51,815
Equity and commodity contracts								
OTC contracts								
Swaps	651	–	476	175	–	**651**	11	41
Options purchased	882	164	589	90	39	**882**	289	398
Options written	976	79	532	332	33	**976**	238	238
TOTAL	2,509	243	1,597	597	72	**2,509**	538	677
Exchange-traded contracts								
Futures								
Long positions	831	638	193	–	–	**831**	479	479
Short positions	1,149	815	334	–	–	**1,149**	1,782	1,782
Options purchased	6	6	–	–	–	**6**	9	9
Options written	33	6	27	–	–	**33**	15	15
TOTAL	2,019	1,465	554	–	–	**2,019**	2,285	2,285
1999 TOTAL	**171,177**	**119,559**	**91,347**	**32,021**	**2,224**	**245,151**		
1998 TOTAL	185,297	119,310	73,813	34,012	1,524	228,659	185,297	228,659

18. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

Credit risk on derivative financial instruments is the risk of a financial loss occurring as a result of a counterparty defaulting on its obligations to the Bank. The current replacement cost, which is the positive fair value of all outstanding derivative financial instruments, represents the Bank's maximum derivative credit exposure. The credit equivalent amount is calculated taking into account the current replacement cost of all outstanding contracts in a gain position, potential future exposure and the impact of master netting agreements. The risk-weighted amount is the credit equivalent amount multiplied by the counterparty risk factors prescribed by the Superintendent. The Bank negotiates master netting agreements with counterparties with which it has significant credit risk exposure resulting from derivative transactions. Such agreements provide for the simultaneous close out and netting of all transactions with a counterparty in the event of default. An increasing number of these agreements also provide for the exchange of collateral between parties in the event that the fair value of outstanding transactions between the parties exceeds an agreed threshold.

As at September 30, credit risk exposure on the derivatives portfolio was as follows:

				1999				1998
	Notional amount	Replacement cost	Credit equivalent amount	Risk-weighted amount	Notional amount	Replacement cost	Credit equivalent amount	Risk-weighted amount
Foreign exchange contracts	65,011	274	784	244	77,096	643	1,217	443
Interest rate contracts	175,612	166	250	65	148,601	266	362	94
Equity and commodity contracts	4,528	45	126	72	2,962	107	339	41
TOTAL	245,151	485	1,160	381	228,659	1,016	1,918	578

As at September 30, the distribution of risk exposure by counterparty was as follows:

		1999		1998
	Replacement cost	Credit equivalent amount	Replacement cost	Credit equivalent amount
OECD governments	16	23	8	18
OECD banks	718	685	1,127	1,085
Other	229	452	541	815
	963	1,160	1,676	1,918

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19. GEOGRAPHIC DISTRIBUTION OF EARNING ASSETS BY ULTIMATE RISK

	1999 $	1999 %	1998 $	1998 %
North America				
Canada	56,380	83.4	52,268	78.6
United States	7,436	11.0	7,611	11.4
	63,816	94.4	59,879	90.0
Europe				
United Kingdom	757	1.1	1,745	2.6
France	424	0.6	933	1.4
Germany	616	0.9	455	0.7
Other	1,017	1.5	1,539	2.3
	2,814	4.1	4,672	7.0
Latin America and Caribbean	600	0.9	1,516	2.3
Asia and Pacific	337	0.5	394	0.6
Middle East and Africa	38	0.1	52	0.1
Earning assets as at September 30	67,605	100.0	66,513	100.0
Other assets as at September 30	6,089		4,707	
Net change in total assets in October	(3,893)		(557)	
Total assets as at October 31	69,801		70,663	

Earning assets are those which bear interest. Consequently, they do not include cash, deposits with the Bank of Canada, cheques and other items in transit (net value), customers' liability under acceptances, premises and equipment and other assets. The Bank's earning assets as at September 30 were distributed according to the location of ultimate risk, namely, the geographic location of the borrower or, if applicable, the guarantor. Earning assets are calculated net of any allowance for credit losses and the general allowance for credit risk, and are presented separately for each country where the Bank's exposure exceeds an amount equal to 3/4% of total earning assets.

There is no significant concentration of credit risk in any given sector.

20. INTEREST RATE SENSITIVITY POSITION

Analyzing interest rate sensitivity gaps is one of the methods used by the Bank to manage interest rate risk.

The following breakdown of assets and liabilities by maturity illustrates the sensitivity of the Bank's balance sheet to interest rate fluctuations as at October 31, 1999.

	Floating rate	3 months and under	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Cash resources	846	2,329	185	–	–	201	**3,561**
Effective yield		*5.0 %*	*5.1 %*	–	–		
Securities	–	2,506	3,848	4,335	2,902	3,341	**16,932**
Effective yield		*5.2 %*	*5.6 %*	*5.9 %*	*6.5 %*		
Loans	14,187	10,256	6,376	11,918	170	984	**43,891**
Effective yield		*5.6 %*	*6.9 %*	*6.9 %*	*6.3 %*		
Other	1,454	1,431	2,532	–	–	–	**5,417**
	16,487	16,522	12,941	16,253	3,072	4,526	**69,801**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits	8,920	14,957	15,803	9,594	194	516	**49,984**
Effective yield		*5.1 %*	*5.5 %*	*5.5 %*	*5.9 %*		
Other debt (1)	761	4,108	489	1,234	1,817	456	**8,865**
Effective yield		*5.0 %*	*5.2 %*	*6.0 %*	*6.5 %*		
Bank debentures	105	–	–	530	400	–	**1,035**
Effective yield		–	–	*8.2 %*	*6.4 %*		
Acceptances and other liabilities	–	(832)	2,358	2,904	823	1,363	**6,616**
Shareholders' equity	–	–	–	317	–	2,984	**3,301**
	9,786	18,233	18,650	14,579	3,234	5,319	**69,801**
On-balance sheet gap	6,701	(1,711)	(5,709)	1,674	(162)	(793)	**–**
Derivative financial instruments	–	(3,777)	5,540	(137)	610	(2,341)	**(105)**
TOTAL	6,701	(5,488)	(169)	1,537	448	(3,134)	**(105)**
Position in Canadian dollars							
On-balance sheet total	4,785	(4,544)	633	1,569	110	(975)	**1,578**
Derivative financial instruments	–	136	1,572	(1,172)	450	(2,419)	**(1,433)**
Total	4,785	(4,408)	2,205	397	560	(3,394)	**145**
Position in foreign currency							
On-balance sheet total	1,916	2,833	(6,342)	105	(272)	182	**(1,578)**
Derivative financial instruments	–	(3,913)	3,968	1,035	160	78	**1,328**
Total	1,916	(1,080)	(2,374)	1,140	(112)	260	**(250)**
1999 TOTAL	**6,701**	**(5,488)**	**(169)**	**1,537**	**448**	**(3,134)**	**(105)**
1998 TOTAL	6,880	(11,661)	3,083	3,874	(11)	(1,946)	219

Effective yield represents the weighted average effective yield based on the earlier of contractual repricing or the maturity date.

(1) Represents obligations related to securities sold short and securities sold under repurchase agreements.

(Tabular amounts are in millions of dollars, unless otherwise indicated)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the fair value of on and off-balance sheet financial instruments based on the valuation methods and assumptions set out below.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings, equipment and furniture. Due to the judgment used in applying a wide range of acceptable valuation techniques and estimations in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

			1999			1998
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets						
Cash resources	3,561	3,561	–	4,852	4,852	–
Securities	16,932	16,922	(10)	15,439	15,486	47
Loans	43,891	43,602	(289)	45,507	45,778	271
Other assets	5,417	5,417	–	4,865	4,865	–
TOTAL	69,801	69,502	(299)	70,663	70,981	318
Liabilities						
Deposits	49,984	49,964	(20)	48,026	48,793	767
Other liabilities	15,481	15,481	–	18,976	18,976	–
Bank debentures	1,035	1,010	(25)	966	1,028	62
TOTAL	66,500	66,455	(45)	67,968	68,797	829

The fair value of derivatives is as follows:

				1999				1998
	Contracts held for trading purposes		Contracts held for non-trading purposes		Contracts held for trading purposes		Contracts held for non-trading purposes	
	Gross assets	Gross liabilities	Gross assets	Gross liabilities	Gross assets	Gross liabilities	Gross assets	Gross liabilities
Foreign exchange contracts	614	548	83	128	1,577	1,417	2,640	1,330
Interest rate contracts	63	70	247	104	136	159	299	152
Equity contracts	156	57	–	–	27	2	49	–
TOTAL	833	675	330	232	1,740	1,578	2,988	1,482

21. **FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)**

Valuation methods and assumptions

Cash resources, other assets and other liabilities:	Due to their short-term maturity, the fair value of these financial instruments is assumed to be equal to its carrying value.
Securities:	The fair value of securities is presented in Note 3 to the Consolidated Financial Statements. It is based on quoted market prices. If quoted market prices are not available, fair value is estimated using the quoted market prices of similar securities.
Loans:	The fair value of floating-rate loans is assumed to be equal to its carrying value. The fair value of other loans is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans as at the balance sheet date applied to expected maturity amounts (adjusted for any prepayments).
Deposits:	The fair value of fixed-rate deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with the same remaining terms to maturity. The fair value of deposits with no stated maturity is assumed to be equal to its carrying value.
Bank debentures:	The fair value of bank debentures is determined by discounting the contractual cash flows, using market interest rates currently offered for similar financial instruments with the same remaining terms to maturity.
Derivatives:	The fair value of derivatives is determined, before the impact of master netting agreements, using various methodologies including quoted market prices, prevailing market rates for instruments with similar characteristics and maturities, net present value analysis or other pricing models as appropriate.

22. **RELATED PARTY TRANSACTIONS**

The Bank grants loans to its directors, officers and staff under various conditions. Total outstanding loans of this type amounted to:

	1999	1998
Loans to directors (August 31)	98	276
Loans to officers and staff (October 31)	456	443

23. **CONTINGENCIES**

a) Litigation

Various legal proceedings are pending against the Bank and its subsidiaries. In management's opinion, the aggregate amount of potential liability related thereto will not have a material impact on the Bank's financial position.

b) Uncertainty related to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. The Bank has devoted considerable resources to modifying or replacing its major computer systems in order to enable them to be year 2000 compliant. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

(Tabular amounts are in millions of dollars, unless otherwise indicated)

24. SEGMENT DISCLOSURES

In 1999, the Bank adopted, on a retroactive basis, the new Canadian accounting standards related to segment disclosures using a management approach. This method is based on the way management organizes the segments within the enterprise for making operating decisions and assessing performance. The Bank carries out its activities in three reportable segments described hereinafter, the other operating segments being grouped together for presentation purposes. Each reportable segment is distinguished by the services offered, the type of client and the marketing strategies. The following summary briefly describes the operations included in each of the Bank's reportable segments.

Personal Banking and Wealth Management:	This segment comprises the branch network, intermediary services, full-service retail brokerage, discount brokerage, mutual funds, trust services, credit cards and insurance.
Commercial Banking:	This segment includes commercial banking services in Canada and the United States.
Financial Markets, Treasury and Investment Banking:	This segment consists of corporate lending, treasury operations which include asset and liability management, corporate brokerage and portfolio management.
Other segments:	This segment comprises the real estate segment, the international division and the unallocated portion of centralized service units.

The accounting policies of the reportable segments are the same as those described in the note on accounting policies, with the exception of net interest income and income taxes which are presented on a taxable equivalent basis. Head Office expenses are recorded under segment results. The Bank assesses the performance based on income before goodwill charges. Intersegment revenues are recorded at exchange value. Segment assets are average assets directly used in segment operations.

	Personal Banking and Wealth Management		Commercial Banking		Financial Markets, Treasury and Investment Banking		Other segments		Total	
	1999	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Net interest income (1)	**762**	771	**289**	273	**104**	124	**164**	142	**1,319**	1,310
Other income	**733**	694	**118**	107	**281**	209	**131**	132	**1,263**	1,142
Total revenues	**1,495**	1,465	**407**	380	**385**	333	**295**	274	**2,582**	2,452
Operating expenses	**1,148**	1,123	**150**	138	**214**	176	**150**	140	**1,662**	1,577
Contribution	**347**	342	**257**	242	**171**	157	**145**	134	**920**	875
Provision for credit losses	**77**	58	**90**	88	**3**	2	**15**	45	**185**	193
Income before income taxes	**270**	284	**167**	154	**168**	155	**130**	89	**735**	682
Income taxes	**105**	111	**66**	59	**63**	60	**41**	29	**275**	259
Non-controlling interest	**5**	4	**–**	–	**4**	4	**23**	23	**32**	31
Income before goodwill charges	**160**	169	**101**	95	**101**	91	**66**	37	**428**	392
Average assets	**24,331**	22,760	**13,705**	12,253	**32,323**	31,022	**(972)**	(162)	**69,387**	65,873

(1) Net interest income was grossed up by $37 million ($3 million in 1998) to bring the tax-exempt income earned on certain securities in line with the income on other financial instruments. An equal amount was added to income taxes.

24. SEGMENT DISCLOSURES (cont.)

Results by geographic segment

Total revenues are attributed to countries where the client conducts business.

	1999	1998
Canada	2,350	2,230
United States	173	167
Other countries	59	55
Total revenues	2,582	2,452

25. ACQUISITIONS

First Marathon Inc.

On August 13, 1999, the Bank acquired 100% of the common shares of First Marathon Inc., a brokerage firm, for a consideration of 16,250,000 common shares valued at $301,275,000 as at the acquisition date and a cash amount of $352,686,438. This acquisition was recorded using the purchase method and is detailed as follows:

Tangible assets	
Cash resources	157
Securities	1,003
Loans	785
Other assets	240
	2,185
Less liabilities assumed	
Deposits	634
Other liabilities	1,159
	1,793
Net assets acquired by the Bank	392
Goodwill	262
Total investment cost	654
Issuance of common shares	301
Consideration in cash	353
Cash and cash equivalents acquired	(157)
Amount disbursed, net of cash and cash equivalents acquired	196

The earnings of First Marathon Inc. were included in the Consolidated Statement of Income as of the acquisition date. Goodwill is amortized using the straight-line method over a period of 20 years.

(Tabular amounts are in millions of dollars, unless otherwise indicated)

25. ACQUISITIONS (cont.)

Acquisition of shares of National Bank Financial & Co. Inc. held by non-controlling shareholders

On September 30, 1999, the Bank, through National Bank Group Inc., a wholly-owned subsidiary, purchased all of the shares of National Bank Financial & Co. Inc. (formerly "Lévesque Beaubien and Company Inc."), the parent company of National Bank Financial Inc. (formerly "Lévesque Beaubien Geoffrion Inc.") not already held by the Bank for an aggregate consideration of $80 million, payable by the issuance of preferred shares of such subsidiary or a combination of cash and such preferred shares. As a result, National Bank Financial Inc. became an indirect wholly-owned subsidiary of the Bank.

Carrying value of non-controlling interest	**62**
Consideration:	
Issuance of preferred shares of National Bank Group Inc.	
Class A	**13**
Class B	**30**
	43
Cash	**37**
Price paid	**80**
Goodwill	**18**

This acquisition was recorded using the purchase method. Goodwill is amortized using the straight-line method over a period of 20 years.

26. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA

The consolidated financial statements of the Bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirements of the Superintendent. The impact of the departure from Canadian GAAP to conform to the Guidance provided by the Superintendent is described below.

Consolidated Balance Sheet

The following table shows the increases (decreases) in the Balance Sheet resulting from the application of the Guidance provided by the Superintendent.

Description	Note	1999	1998
Loans		**(300)**	(300)
Other assets		**117**	117
Shareholders' equity		**(183)**	(183)

a) As described in Note 5, the Bank increased in 1998 its general allowance for credit risk. In accordance with the Guidance provided by the Superintendent, this one-time adjustment was applied to retained earnings. The adjustment does not comply with Canadian GAAP. However, had the Bank not departed from Canadian GAAP to conform to the Guidance provided by the Superintendent, loans would have increased by $300 million, deferred income taxes included in "Other assets" would have declined by $117 million and retained earnings would have risen by $183 million.

Consolidated Statement of Income

There was no impact on the Consolidated Statement of Income as reported, compared with Canadian GAAP.

Consolidated Statement of Changes in Shareholders' Equity

Except for the impact on shareholders' equity of $183 million, there was no impact on the Consolidated Statement of Changes in Shareholders' Equity as reported, compared with Canadian GAAP.

Consolidated Statement of Cash Flows

There was no impact on the Consolidated Statement of Cash Flows as reported, compared with Canadian GAAP.

Financial ratios

This adjustment reduced the book value of common shares as at October 31, 1999 by $0.97 and increased the return on common shareholders' equity by 1.0%.

(Tabular amounts are in millions of dollars, unless otherwise indicated)

27. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The consolidated financial statements of the Bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP) other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirements of the Superintendent. In the Bank's case, Canadian GAAP is, in all material respects, in accordance with U.S. GAAP, except for the following.

Consolidated Balance Sheet

The following table shows the increases (decreases) in the Balance Sheet resulting from the application of U.S. GAAP:

	Note	1999	1998
Investment account securities		(10)	47
Loans		300	300
Other assets		(21)	(70)
Other liabilities		174	163
Shareholders' equity		95	114

Consolidated Statement of Income

The following table shows the increases (decreases) in the Statement of Income resulting from the application of U.S. GAAP:

	Note	1999	1998
Reported net income		417	316
Post-retirement benefits		(5)	(2)
Pension expense		(6)	(6)
Income tax effect on above elements		4	3
Net income per U.S. GAAP		410	311
Net income per common share – basic – U.S. GAAP		$2.20	$1.66
Net income per common share – fully diluted – U.S. GAAP		$2.17	$1.65

a) Under Canadian GAAP, securities held by the Bank for resale should be classified as trading account securities if they are held for resale in the near term and as investment account securities in other cases. Investment account securities are recorded at their unamortized cost while trading account securities are reported at their fair value. According to the U.S. Statement of Financial Accounting Standards (SFAS) No. 115 regarding the accounting for securities, investment account securities would be separated into two categories: securities held to maturity and securities available for sale. Securities held to maturity include those that the Bank has the positive intent and ability to hold to maturity. These securities are recorded at their unamortized cost. Securities available for sale include those that are not held to maturity or trading account securities. They are reported at their fair value, with unrealized gains and losses excluded from income and reported in a separate component of shareholders' equity.

Had the Bank reported its investment account securities as at October 31, 1999 in accordance with U.S. GAAP, the value of the investment account securities would have decreased by $10 million (increased by $47 million in 1998), deferred income tax assets would have increased by $4 million (decreased by $18 million in 1998), and shareholders' equity would have decreased by $6 million (increased by $29 million in 1998).

Moreover, the change in unrealized gains and losses on securities available for sale, net of income taxes, would be recorded as Consolidated Comprehensive Income.

b) Under Canadian GAAP, post-retirement benefits other than pensions could either be charged to income as they are incurred or they can be provided for on an accrual basis. The Bank charges to income all post-retirement benefits other than pension costs as they are incurred. According to SFAS No. 106, the cost of post-retirement benefits other than pension plans is recognized to income on an accrual basis, based on actuarial assumptions. Had the Bank adopted this standard, income before income taxes would have decreased by $5 million ($2 million in 1998), income taxes would have decreased by $2 million ($1 million in 1998), deferred income tax assets would have increased by $30 million ($29 million in 1998), other liabilities would have increased by $76 million ($71 million in 1998) and shareholders' equity would have decreased by $46 million ($42 million in 1998).

27. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES (cont.)

c) As described in Note 5, the Bank increased its general allowance for credit risk in 1998. In accordance with the Guidance provided by the Superintendent, this one-time adjustment was applied to retained earnings. The adjustment does not comply with U.S. GAAP. Had the Bank adopted U.S. GAAP, loans would have increased by $300 million, deferred income tax assets would have decreased by $117 million and retained earnings would have risen by $183 million. There would have been no impact on the Consolidated Statement of Income.

d) The method to value pension fund assets and the present value rates used differ between U.S. and Canadian GAAP when calculating the pension costs and pension obligations. Had the Bank accounted for pension costs and obligations following U.S. GAAP, income before income taxes would have decreased by $6 million ($6 million in 1998), income taxes would have decreased by $2 million ($2 million in 1998), deferred income tax assets would have increased by $38 million ($36 million in 1998), other liabilities would have increased by $98 million ($92 million in 1998) and shareholders' equity would have decreased by $60 million ($56 million in 1998).

e) Under Canadian GAAP, the value of the shares issued by the Bank in order to acquire First Marathon Inc. is based on the market price of the shares over a reasonable period of time before and after the acquisition date. According to U.S. GAAP, the value of shares is based on the market price of the shares over a reasonable period of time before and after the date the terms of the acquisition are agreed to and announced. Had the Bank adopted U.S. GAAP, goodwill and shareholders' equity would have increased by $24 million.

f) Consolidated Comprehensive Income

	1999	1998
Net income per U.S. GAAP	**410**	311
Change in unrealized gains and losses on securities available for sale, net of income taxes	**(35)**	(37)
Unrealized foreign exchange gains (losses), net of income taxes	**23**	(14)
Consolidated Comprehensive Income	**398**	260

g) There is no material difference in the Consolidated Statement of Cash Flows as reported, compared with U.S. GAAP.

h) SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" will be effective as of November 1, 2000 for the Bank. It requires that all derivatives be recognized as either assets or liabilities and measured at fair value. The criteria for determining whether all or a portion of a derivative instrument may be designated as a hedge has changed. Derivatives which are fair value hedges, together with the financial instrument being hedged, will be marked to market with adjustments reflected in the Consolidated Statement of Income. Derivatives which are cash flow hedges will be marked to market with adjustments reflected in Consolidated Comprehensive Income. The impact of implementing this standard on the Bank's Consolidated Balance Sheet, Consolidated Statement of Income and Consolidated Comprehensive Income is not yet determinable.

Statistical Review

FISCAL YEAR 1998-1999

As at October 31

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Balance sheet data										
(in millions of dollars)										
Cash resources	**$ 3,561**	$ 4,852	$ 4,476	$ 3,528	$ 5,174	$ 3,765	$ 3,204	$ 3,693	$ 1,883	$ 2,216
Securities	**16,932**	15,439	10,010	8,414	7,285	6,071	5,985	4,273	3,899	3,129
Loans	**43,891**	45,507	47,259	37,935	33,795	32,226	30,692	30,003	28,360	27,420
Acceptances	**2,962**	2,658	2,273	1,725	1,293	1,255	1,081	940	1,335	2,151
Premises and equipment and other assets	**2,455**	2,207	2,217	1,532	1,366	1,457	1,772	1,126	962	987
Total assets	**$ 69,801**	$ 70,663	$ 66,235	$ 53,134	$ 48,913	$ 44,774	$ 42,734	$ 40,035	$ 36,439	$ 35,903
Deposits	**$ 49,984**	$ 48,026	$ 43,270	$ 40,125	$ 40,424	$ 36,850	$ 35,113	$ 33,433	$ 29,987	$ 28,929
Other liabilities	**15,481**	18,976	19,136	9,494	4,895	4,253	4,476	3,645	3,451	3,976
Long-term debt										
Floating-capital notes	**–**	–	–	–	106	113	120	–	–	–
Bank debentures	**1,035**	966	1,069	1,016	1,177	1,241	1,037	969	806	727
Liabilities of subsidiaries	**–**	–	–	–	–	–	17	234	408	535
Capital stock										
Preferred	**317**	317	376	376	376	532	426	468	385	387
Common	**1,641**	1,327	1,309	1,268	1,234	1,207	1,083	906	905	904
Retained earnings	**1,343**	1,051	1,075	855	701	578	462	380	497	445
Total liabilities and shareholders' equity	**$ 69,801**	$ 70,663	$ 66,235	$ 53,134	$ 48,913	$ 44,774	$ 42,734	$ 40,035	$ 36,439	$ 35,903
Average assets	**$ 69,387**	$ 65,873	$ 55,685	$ 49,239	$ 47,582	$ 43,160	$ 39,657	$ 38,908	$ 36,740	$ 36,040
Average capital funds (1)	**3,512**	3,886	3,744	3,511	3,620	3,230	2,871	2,723	2,593	2,463
Income statement data										
(in millions of dollars)										
Net interest income	**$ 1,282**	$ 1,307	$ 1,319	$ 1,136	$ 1,170	$ 1,081	$ 996	$ 1,012	$ 972	$ 902
Other income	**1,263**	1,142	1,056	970	712	719	635	541	472	439
Total revenues	**$ 2,545**	$ 2,449	$ 2,375	$ 2,106	$ 1,882	$ 1,800	$ 1,631	$ 1,553	$ 1,444	$ 1,341
Provision for credit losses	**185**	193	290	235	255	275	325	570	270	250
Operating expenses	**1,662**	1,577	1,478	1,402	1,219	1,158	1,036	1,011	914	863
Income taxes	**238**	256	238	130	146	131	81	(41)	64	54
Non-controlling interest	**32**	31	16	10	7	9	8	7	5	–
Income before goodwill charges	**428**	392	353	329	255	227	181	6	191	174
Goodwill charges	**11**	76	11	11	10	10	6	5	5	5
Net income	**$ 417**	$ 316	$ 342	$ 318	$ 245	$ 217	$ 175	$ 1	$ 186	$ 169

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Common stock data										
Number of common shares at end of year (in thousands)	**188,729**	171,616	170,461	167,151	163,963	160,976	148,474	127,152	127,031	126,875
Number of common shareholders of record	**32,048**	32,902	34,433	36,549	39,053	41,974	46,121	49,200	56,901	60,911
Income (loss) per share before goodwill charges										
– Basic	**$ 2.30**	$ 2.13	$ 1.93	$ 1.82	$ 1.32	$ 1.18	$ 1.05	$ (0.25)	$ 1.24	$ 1.14
– Fully diluted	**$ 2.27**	$ 2.11	$ 1.91	$ 1.81	$ 1.31	$ 1.16	$ 1.04	$ (0.25)	$ 1.23	$ 1.13
Net income (loss) per share										
– Basic	**$ 2.24**	$ 1.69	$ 1.86	$ 1.76	$ 1.26	$ 1.12	$ 1.01	$ (0.29)	$ 1.20	$ 1.10
– Fully diluted	**$ 2.21**	$ 1.67	$ 1.84	$ 1.74	$ 1.24	$ 1.10	$ 1.00	$ (0.29)	$ 1.19	$ 1.09
Dividends per share	**$ 0.70**	$ 0.66	$ 0.575	$ 0.49	$ 0.40	$ 0.40	$ 0.40	$ 0.70	$ 0.80	$ 0.80
Stock trading range										
– High	**$ 26.20**	$ 31.25	$ 20.30	$ 13.90	$ 11.88	$ 11.63	$ 10.75	$ 12.75	$ 11.38	$ 14.00
– Low	**$ 17.15**	$ 20.10	$ 13.20	$ 10.38	$ 8.63	$ 8.25	$ 7.25	$ 7.38	$ 7.00	$ 7.13
– Close	**$ 17.90**	$ 23.05	$ 20.15	$ 13.00	$ 11.00	$ 9.38	$ 10.50	$ 8.13	$ 11.13	$ 7.13
Book value per share	**$ 15.81**	$ 13.86	$ 13.99	$ 12.70	$ 11.88	$ 11.09	$ 10.41	$ 10.11	$ 11.03	$ 10.63
Financial ratios										
Return on common shareholders' equity before goodwill charges	**16.4%**	15.5%	15.6%	16.4%	12.6%	12.3%	11.4%	(2.4)%	12.2%	10.8%
Return on common shareholders' equity	**15.1%**	11.6%	14.0%	14.5%	11.0%	10.5%	9.9%	(2.6)%	11.0%	9.8%
Return on average assets	**0.60%**	0.58%	0.62%	0.64%	0.51%	0.50%	0.44%	– %	0.51%	0.47%
Return on average capital funds	**13.2%**	9.3%	10.5%	10.6%	8.3%	7.9%	(3)7.3%	1.5%	8.7%	8.7%
Capital ratios (BIS)										
– Tier 1	**7.7%**	7.7%	8.1%	6.9%	6.8%	6.9%	(3)6.2%	5.0%	5.2%	4.9%
– Total	**(5)11.0%**	10.7%	11.3%	(2)10.2%	10.4%	11.1%	(3)9.6%	8.7%	8.8%	8.2%
Other information										
Impaired loans, net (in millions of dollars)	**$ 43**	$ 47	$ 297	$ 406	$ 511	$ 688	$ 904	$ 1,097	$ 733	$ 665
Number of Bank employees (full-time equivalent)(4)										
– In Canada	**11,744**	11,641	11,245	11,022	10,249	10,423	11,822	11,629	12,275	12,210
– Outside Canada	**431**	400	406	380	371	323	327	333	369	372
– National Bank Financial & Co. Inc.	**2,489**	1,895	1,676	1,425	1,578	1,481	1,398	1,339	1,293	1,291
Number of branches in Canada	**649**	646	641	632	629	641	650	652	662	650
Number of banking machines	**761**	744	738	712	624	551	496	482	454	397

(1) Average capital funds include common shareholders' equity, redeemable preferred shares and bank debentures.

(2) Taking into account the issuance of $150 million in bank debentures on November 1, 1996.

(3) Taking into account the redemption of $100 million in bank debentures through the issue of common shares as at November 1, 1993.

(4) The basis for determining full-time equivalence was changed in 1996.

(5) Taking into account the issuance of US $250 million in bank debentures on November 2, 1999.

Subsidiaries and Affiliated Corporations

FISCAL YEAR 1998-1999

As at October 31, 1999

Name	Principal office address	Percentage of voting and participating shares	Investment at cost (millions of $)
Subsidiaries			
Natcan Trust Company	Montreal, Canada	100%	55
General Trust of Canada	Montreal, Canada	100%	155
National Bank Life Insurance Company	Montreal, Canada	100%	10
Assurnat, Insurance Firm Inc.	Montreal, Canada	90%	7
National Bank Financial Services Inc.	Montreal, Canada	100%	2
National Bank Financial Services (Investments) Inc.	Montreal, Canada	100%	–
NBC Export Development Corporation Inc.	Montreal, Canada	100%	–
National Bank Group Inc.	Montreal, Canada	100%	181
– National Bank Financial & Co. Inc.	Montreal, Canada	100%	210
– National Bank Financial Inc.	Montreal, Canada	100%	–
– National Bank Financial Corp.	Montreal, Canada	100%	–
National Bank Discount Brokerage	Montreal, Canada	100%	1
National Bank Securities Inc.	Montreal, Canada	100%	–
NBC Clearing Services Incorporated	Montreal, Canada	100%	–
Natcan Investment Management Inc.	Montreal, Canada	77%	8
SIBN Inc.	Montreal, Canada	100%	23
Municipal Securities Inc.	Barrie, Canada	100%	–
Cancap Preferred Corporation	Montreal, Canada	100%	–
National Bank Financial Planning Inc.	Montreal, Canada	100%	–
National Bank Real Estate Inc.	Montreal, Canada	100%	–
Innocap Investment Management Inc.	Montreal, Canada	100%	1
FMI Acquisition Holding Inc.	Montreal, Canada	100%	–
Alter Moneta Corporation	Longueuil, Canada	73%	15
NBC Holdings USA, Inc.	New York, United States	100%	–
– National Canada Finance Corp.	New York, United States	100%	–
– National Canada Business Corp.	New York, United States	100%	–
– National Canada Corporation	New York, United States	100%	–
– National Canada Export Corporation	New York, United States	100%	–
NB Capital Corporation	New York, United States	100%	270
NB Finance Ltd.	Hamilton, Bermuda	100%	195
NatBC Holding Corporation	Florida, United States	100%	–
– Natbank, National Association	Florida, United States	100%	–
Natcan Holdings International Limited	Nassau, Bahamas	100%	–
– Mercantile Canada Finance B.V.	Amsterdam, Netherlands	100%	1
– National Bank of Canada (International) Limited	Nassau, Bahamas	100%	1
Natcan Finance (Asia) Limited	Hong Kong, China	100%	1
National Bank of Canada (Asia) Ltd.	Singapore, Singapore	100%	3
Natcan Insurance Company Limited	Christ Church, Barbados	100%	1

GENERAL INFORMATION

Pierre Beaudoin
President and
Chief Operating Officer
Recreational Products Group
Bombardier Inc.
Montreal, Quebec

André Bérard
Chairman of the Board and
Chief Executive Officer
National Bank of Canada
Montreal, Quebec

Lawrence S. Bloomberg
Co-Chairman and
Co-Chief Executive Officer
National Bank Financial Inc.
Toronto, Ontario

Pierre Bourgie
President and
Chief Executive Officer
Société Financière Bourgie Inc.
Outremont, Quebec

Gérard Coulombe
Senior Partner
Desjardins Ducharme
Stein Monast
Sainte-Marthe, Quebec

Michelle Courchesne
General Manager
Montreal Symphony Orchestra
Laval, Quebec

Léon Courville
President, Personal and
Commercial Bank, and
Chief Operating Officer
National Bank of Canada
Outremont, Quebec
Until October 31, 1999

François Jean Coutu
President and
Chief Operating Officer
The Jean Coutu Group (PJC) Inc.
Outremont, Quebec

Shirley A. Dawe
President
Shirley Dawe Associates Inc.
Toronto, Ontario

Nicole Diamond-Gélinas
Vice-President and
General Manager
Aspasie Inc.
Saint-Barnabé-Nord, Quebec

Jean Douville
Chairman of the Board and
Chief Executive Officer
UAP Inc.
Montreal, Quebec

Marcel Dutil
Chairman of the Board,
President and
Chief Executive Officer
The Canam Manac Group Inc.
Outremont, Quebec

Paul Gobeil
Vice-Chairman of the Board
Métro-Richelieu Inc.
Montreal, Quebec

Donald M. Green
President and
Chief Executive Officer
Greenfleet Ltd.
Burlington, Ontario

Suzanne Leclair
President,
Chief Executive Officer and
Chairwoman of the Board
Transit Truck Bodies Inc.
Laval, Quebec

Bernard Lemaire
Chairman of the Board
Cascades Inc.
Kingsey Falls, Quebec

Léonce Montambault
Corporate Director
Sillery, Quebec

J.-Robert Ouimet
President and
Chief Executive Officer
Ouimet-Cordon Bleu Inc.
Montreal, Quebec

Robert Parizeau
Chairman of the Board
AON Parizeau Inc.
Montreal, Quebec

Michel Perron
Chairman of the Board and
Chief Executive Officer
Somiper Inc.
Westmount, Quebec

Réal Raymond
President, Personal and
Commercial Bank
National Bank of Canada
Montreal, Quebec
Effective November 1, 1999

Raymond Royer
President and
Chief Executive Officer
Domtar Inc.
Île-Bizard, Quebec

Claude F. Savoie
President
Acadian Construction (1991) Ltd.
Moncton, New Brunswick

Jean Turmel
President, Financial Markets,
Treasury and Investment Bank
National Bank of Canada
Outremont, Quebec

CREDIT COMMITTEE

The Credit Committee approves loans, by borrower and by group of borrowers, which exceed the powers delegated to officers, in accordance with the Credit Risk Management Policy of the Bank. It approves any transaction between the Bank and related parties in accordance with the requirements of the *Bank Act* and makes recommendations thereon to the Board of Directors. This Committee ensures that impaired loans are monitored and approves the provisions to be taken. Moreover, it receives and examines the quarterly reports of the Bank on loan losses and impaired loans. Lastly, the Credit Committee forwards to the Board of Directors all recommendations it deems appropriate. During the past fiscal year, this Committee met 14 times.

Members [1]

Raymond Royer
Chair
André Bérard
Ex-officio member
Léon Courville [2]
Ex-officio member
François Jean Coutu
Donald M. Green
J.-Robert Ouimet
Michel Perron [3]

The other members of the Board of Directors are invited to attend meetings on a rotating basis.

AUDIT COMMITTEE

The Audit Committee examines all financial information documents, notably the Annual Information Form and press releases of a financial nature, as well as the quarterly and annual financial statements of the Bank and certain subsidiaries (including Natcan Trust Company) and recommends approval thereof to the Board of Directors. Accordingly, it monitors certain investments and transactions, looks into changes in accounting principles and examines management's reports on disputes and other claims which could have a material impact on the financial position of the Bank. In addition, this Committee monitors the process by which the chief internal auditor is appointed or removed and examines, on an annual basis, the mandate, nature and scope of the Bank's internal and external audit work. It makes recommendations concerning the independence, appointment and remuneration of the external auditors of the Bank. The Audit Committee is also responsible for checking the implementation and effectiveness of the Bank's internal control policies and procedures, making recommendations and monitoring the situation, if applicable. It examines the annual self-assessment reports of the Bank under the standards of the Canada Deposit Insurance Corporation and reviews the policies concerning the business and financial practices adopted by the Bank with respect to risk management and internal controls. Moreover, it ensures that internal audit personnel cooperate with the external auditors and sees that the necessary measures are taken to follow up on the recommendations of the internal and external auditors. This Committee meets with the internal and external auditors and with representatives of the Office of the Superintendent of Financial Institutions and takes their recommendations into consideration in its report to the Board of Directors. During the past fiscal year, this Committee met five times.

In 1999, the Audit Committee was also given the special mandate of examining matters concerning the transition to the year 2000.

Members

Jean Douville
Chair
Michelle Courchesne
Nicole Diamond-Gélinas
Paul Gobeil
Suzanne Leclair
Léonce Montambault
Claude F. Savoie

(1) Lino Saputo was a member of this Committee until his resignation on May 27, 1999.

(2) Léon Courville left the Bank on November 1, 1999.

(3) Michel Perron has been a member since January 1, 1999.

CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE

The Conduct Review and Corporate Governance Committee carries out a number of functions for the Bank and its subsidiary Natcan Trust Company. It makes recommendations to the Board of Directors concerning the adoption of the Bank's orientations, policies and practices with respect to corporate governance and ensures that they are applied. It ensures that the disclosure obligations imposed by the stock exchanges are respected. It evaluates the effectiveness of the Board of Directors, establishes the criteria for selecting new directors and sees that these criteria are respected. It is also the responsibility of this Committee to provide training to directors.

The Committee makes appropriate recommendations concerning the compensation and allowances for the directors.

The Conduct Review and Corporate Governance Committee assumes the functions of a conduct review committee within the meaning of the *Bank Act*. In that regard, it ensures that policies and practices concerning transactions with related parties of the Bank are established and respected and reports thereon to the Office of the Superintendent of Financial Institutions. It monitors the application of procedures established to resolve conflicts of interest, matters pertaining to professional ethics, the dissemination of information and the handling of customer complaints.

For the fiscal year ended October 31, 1999, the Conduct Review and Corporate Governance Committee temporarily assumed the responsibilities which, in accordance with routine practices in the Canadian banking industry, are normally assigned to a human resources committee. A description of the responsibilities of the Human Resources Committee is provided below. During the past fiscal year, this Committee met eight times.

Members (4)

Paul Gobeil
Chair
Pierre Bourgie
Shirley A. Dawe
Bernard Lemaire
Léonce Montambault
Robert Parizeau

(4) Michel Perron and Lino Saputo were members of this Committee until December 31, 1998 and May 27, 1999, respectively. Marcel Dutil and Gérard Coulombe were members until October 28, 1999.

HUMAN RESOURCES COMMITTEE

Formed in October 1999, the Human Resources Committee received as its primary mandate the task of appraising the performance of the executive officers of the Bank and submitting to the Board of Directors its recommendations regarding the aggregate compensation policy and other employee benefits, including the stock option plan and the stock appreciation rights plan. This Committee examines and comments on the Bank's management succession planning as well as the profiles of officers who are likely to be promoted. In addition, it is in charge of overseeing the management of the Bank's pension plans and pool fund.

Members

Robert Parizeau
Chair
Gérard Coulombe
François Jean Coutu
Shirley A. Dawe
Marcel Dutil
Léonce Montambault

Other Committees

BUSINESS DEVELOPMENT COMMITTEES (5)

The mandate of the 20 business development committees is to help the Bank obtain a better understanding of the needs and development potential of each region. The members of these committees advise the Bank's regional vice-presidents on the opportunities and specific needs in their respective regions. Moreover, they contribute to the Bank's visibility.

A senior Bank officer is assigned to liaise with each business development committee so as to facilitate the exchange of information. Each year, one of the business development committees is honoured for its special contribution to business development. At the 1999 Annual Meeting, the Outaouais Business Development Committee took top honours for its drive and achievements.

(5) For the list of members, please refer to pages 96 and 97.

Corporate Governance Practices
OF THE BANK

The Bank believes that it is essential for and in the general interest of any responsible corporation to adopt and comply with corporate governance standards and practices.

Since 1995, when a major review of its corporate governance system was initiated, the Bank has continued to improve its corporate governance practices. These practices are periodically reviewed and adapted to enhance the general performance and effectiveness of the Board of Directors and its committees.

Taking into account the activities and studies it carried out as part of its mandate in fiscal 1999, the Conduct Review and Corporate Governance Committee considers that the Bank meets all its obligations regarding corporate governance, and it is satisfied with the quality of the follow-up done by the Board of Directors with respect to all its recommendations.

In the wake of institutional changes, the Bank has selected and implemented a large number of measures consistent with its vision, values and business objectives, which take into consideration organizational effectiveness and reflect its shareholders' requirements. The general principles of corporate governance that the Bank upholds and the operating rules that it abides by include, in particular, accountability, Board independence, ethics, competence, effectiveness, involvement, cooperation and transparency.

BOARD OF DIRECTORS

The mandate of the Board of Directors and the responsibilities which it discharged with diligence throughout the past fiscal year are presented below.

Role and mandate of the Board of Directors

The Board of Directors supervises the management of the business and internal affairs of the Bank. Its role is essentially to protect the Bank's assets and to ensure its effectiveness, profitability, long-term survival and development. The Board, directly or through its various committees, monitors and supports the Bank's officers in achieving the performance objectives established in the strategic plan. Some of the responsibilities of the Board of Directors are listed hereafter. The Board of Directors is accountable to the shareholders.

- Description of the Bank's mission, setting of its objectives and approval of effective strategies to ensure their realization
- Changes made from time to time to management organizational structures
- Succession planning for the Bank's senior management
- The communications policy of the Bank
- Policies on the business and financial practices of the Bank regarding risk and internal controls as well as the related annual compliance reports
- Credit risk management policies, including the criteria, latitudes, limits and responsibilities inherent in credit decisions
- Compensation policies for employees and officers of the Bank
- All matters for which directors are exclusively responsible under the *Bank Act*

Certain decisions require the prior approval of the Board of Directors, such as those stipulated in the *Bank Act* or those made outside the normal course of business. In its deliberations, the Board of Directors takes into account the recommendations made by the officers and members of the various committees that it has mandated to carry out more in-depth studies. Moreover, powers which are not exclusively within the purview of the directors are generally delegated to the officers in accordance with the terms and conditions set out in the general signing resolutions, which are reviewed on a regular basis.

During the fiscal year ended October 31, 1999, the Board held 14 meetings. On three separate occasions, the Board of Directors held part of these meetings, under the direction of the Chair of the Conduct Review and Corporate Governance Committee or of one of the Committee's members, without Bank officers being present.

The autonomy and integrity of the Board of Directors are essential conditions for the Bank to function properly. These aspects of corporate governance are reflected in particular in the composition of the Board and its committees as well as in the procedures and policies applicable to directors and officers.

Composition of the Board of Directors

As at October 31, 1999, the Board was composed of 18 "unrelated directors" out of a total of 23, within the meaning of the guidelines of the Toronto and Montreal stock exchanges. (1)

As at the same date, 11 Bank directors were "affiliated with the Bank", as defined in banking regulations. (2)

Independence

The freedom of action of the Board of Directors is a major concern for the Bank. In compliance with the corporate governance practice recommended in the Dey Report regarding cases where officers sit on the board of directors, the Board has assigned the Conduct Review and Corporate Governance Committee the mandate of ensuring its independence. The meetings held *in camera* and the Board's self-appraisal process enhance this independence. The Committee may also call on the services of external consultants in the performance of its duties.

The Board of Directors and the Conduct Review and Corporate Governance Committee are of the opinion that the participation of the Chairman of the Board and Chief Executive Officer, the President, Personal and Commercial Bank, the President, Financial Markets, Treasury and Investment Bank, as well as the Co-Chairman of the Board and Co-Chief Executive Officer of National Bank Financial Inc. in the deliberations of the Board has a material impact on the effectiveness of Board meetings and is in the best interest of the Bank and its shareholders.

Ethics and conflicts of interest

Under the *Bank Act*, the Board of Directors is required to set up procedures that apply throughout the Bank to prevent and resolve conflicts of interest. It is the responsibility of the Conduct Review and Corporate Governance Committee to make recommendations to the Board in this regard, in particular by regularly reviewing the procedures to provide disclosure of potential conflicts of interest. Directors are required to respect these procedures, including the rules that relate to them with regard to the deliberations of the Board and its committees.

Selection and appointment of Board members

In general, in an area as competitive and specialized as financial services, the Bank attributes great importance to a high level of competence for its directors. Nominees are selected for their qualities and skills, specifically their experience, expertise, integrity, business judgment, active commitment and influence.

The Bank favours a Board of Directors which, while meeting statutory requirements, is representative from an economic and socio-cultural standpoint. The nominees' place of residence and knowledge of regional and national issues are also taken into consideration. Lastly, given the new requirements of the domestic and global economy, the Bank intends in the future to recruit new nominees, men and women, who have expertise in growth sectors such as advanced technology and communications, health, recreation, and business with an international dimension.

The election of 23 directors, including one new nominee, will be proposed at the Annual Meeting of Shareholders on March 15, 2000.

(1) Unrelated director: "A director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the company, other than interests and relationships arising from shareholding."
– Montreal Exchange, Policy I-15: Corporate Governance Disclosure, July 1995, s. 2.

(2) Director not affiliated with the Bank: "A director who is neither an officer or an employee of the Bank or of a corporation controlled by the Bank nor a person who, directly or through companies with whom such person is affiliated, maintains significant relations with the Bank covering a range of business or shareholding situations, as well as the spouse of such person."
– Based on Affiliated Persons (Banks) Regulations.

Corporate Governance Practices OF THE BANK

Ongoing training

As the financial industry is vast and complex, special presentations made on a regular basis to members of the Board of Directors and some of its committees help to keep directors informed of important technical, strategic and current topics for the Bank. For instance, industry sector presentations were made at Credit Committee meetings to make members more familiar with the needs and special features of certain business and industrial sectors so that they could make more informed decisions.

In addition, the Board has also initiated the practice of holding some meetings each year in a city other than Montreal to allow directors to better understand the diversity of the regions in which the Bank operates. In 1999, the Board of Directors met outside Montreal twice, once in Toronto and once in Quebec City.

Share ownership

In order to further align directors' interests with those of shareholders, the Bank requires members of the Board of Directors to hold a minimum of 2,000 shares.

Committees of the Board of Directors

The duties delegated by the Board of Directors to separate standing or *ad hoc* committees are intended to make it possible to study the subjects specifically prescribed or demanding more attention or greater involvement. The particulars concerning Board committees and their respective mandates, as assigned by the Board of Directors, are presented on pages 88 and 89.

The composition of these committees is based both on statutory requirements and the specific features of their mandate. The Audit Committee and the Conduct Review and Corporate Governance Committee therefore have a majority of "unrelated directors" as well as a majority of "directors not affiliated with the Bank". No officer or employee of the Bank or its affiliates is a member of these committees. The Credit Committee is composed of permanent members, members invited on a rotating basis and two senior officers of the Bank.

Conduct Review and Corporate Governance Committee

The Conduct Review and Corporate Governance Committee plays a significant role. It acts as a forum for in-depth analysis of a number of issues, in particular those related to compliance and professional conduct, and for developing various tools necessary for the efficient functioning of the Bank's Board of Directors.

A self-appraisal of the Board of Directors performed under the supervision of the Committee revealed that the Board was generally satisfied with the effectiveness of the corporate governance process implemented by the Bank and enabled the necessary improvements to be made.

In 1999, an *ad hoc* committee was formed, notably in order to review the succession planning process for senior management at the Bank. This committee met 10 times, further to which, and on the recommendation of the Conduct Review and Corporate Governance Committee, the Board of Directors created a new standing committee in October 1999, responsible for human resources. This redistribution of mandates will allow the resulting committees to focus more closely on their respective responsibilities.

OF THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE IN 1999

- Revision of the Code of Professional Conduct applicable to the employees and officers of the Bank
- Self-appraisal of the Board's performance and effectiveness
- Abolition of the Executive Committee in December 1998 and redistribution and review of the mandates of the various committees
- Creation of an *ad hoc* human resources committee in order to review the succession planning process for senior management
- Recommendation regarding the setting up of the Human Resources Committee
- Examination of the candidacies and recommendations with respect to the nomination of new directors in 1999
- Amendment to the policy for appointing officers or employees as directors of external companies
- Method of remuneration for directors of the Bank and its subsidiaries
- Revision of the Directors' Handbook

Interaction and cooperation

For the Board of Directors and its committees to function effectively, they rely on the quality of the information provided, on the identification and analysis of strategic options and possible choices and on the quality of the solutions recommended.

Officers, directors and members of the committees of the Board of Directors work together closely to make this possible. They share relevant information allowing them to make informed decisions in the best interest of the Bank, its shareholders and its partners, including in particular:

- Strategic issues
- Business practices and strategies
- Accounting procedures, internal controls and various risk management conditions
- Human resources management
- Technological development
- Compliance with statutory and regulatory requirements

Information regarding priority matters for the Bank is frequently exchanged, often requiring a commitment from the directors that goes well beyond formally called meetings. These exchanges are based on a multi-disciplinary approach, information sharing and open discussion about major issues for the Bank.

The expectations of the Board of Directors regarding the Bank's officers are provided in the position descriptions and personal general objectives which are approved by the Board and are based on the strategic plan and the annual budget. The performance of the Bank's officers is assessed on the basis of their achievement of these objectives.

Communications

Communications and accurate information are an essential component of modern corporate management. The Bank, particularly through its committees, regularly addresses the issue of the quality of information and communications at the Bank.

The Bank and its clients

The Bank has established various structures to reach its clients. Its Web site is becoming an increasingly preferred approach (refer to www.nbc.ca). Formal complaints may be filed with the Ombudsmen of the Bank, who report regularly to the Conduct Review and Corporate Governance Committee.

In addition to the information that the Bank is required to provide under applicable legislation, another means of contact with existing and potential clients is through the Bank's Business Development Committees in the regions and its Farm Advisory Committee and High Technology Committee. (Further information in this regard is presented on pages 96 and 97.) The Bank remains close to its clients and the public in general through its involvement in charitable, social and business activities in the community.

The Bank and its shareholders

The Bank maintains ongoing relations with its shareholders of record and non-registered shareholders through General Trust of Canada and other financial intermediaries and, in particular, by means of the Annual Meeting. Shareholders may communicate with the Bank at any time by contacting the Corporate Secretary's Office, the Investor Relations Department or General Trust of Canada, the Bank's Transfer Agent and Registrar. (Further information in this regard is presented on page 102.)

Statement recommended by the Conduct Review and Corporate Governance Committee on December 9, 1999 and approved by the Board of Directors of the Bank on December 16, 1999.

Executive Office

André Bérard
Chairman of the Board and
Chief Executive Officer

Léon Courville
President, Personal and
Commercial Bank, and
Chief Operating Officer
Until October 31, 1999

Réal Raymond
President, Personal and
Commercial Bank
Effective November 1, 1999

Jean Turmel
President, Financial Markets,
Treasury and Investment Bank

Senior Vice-Presidents

Gilles Bissonnette
Banking and Operations

Richard Carter
President
SIBN Inc.

Patricia Curadeau-Grou
Chair of the Credit Committee

Pierre Desbiens
Insurance and Trust Services

Gisèle Desrochers
Human Resources and
Administration

Frank De Vries
United States

Jacques Grandmaison
Card Services and
Electronic Networks

Jean Houde
Banking and Retail Market

Douglas E. Kemp-Welch
Ontario and Western Canada

Michel Labonté
Finance and Control

Mario Lecaldare
Senior Executive Vice-President
Corporate Financing
National Bank Financial Inc.

Tony P. Meti
Banking and
Commercial Market

Renaud Nadeau
Banking and
Independent Businesses

Denis Pellerin
International

Louis Vachon
Treasury and
Financial Markets

Executive Vice-President

Pierre Desroches
Wealth Management and
President and
Chief Executive Officer
General Trust of Canada

Presidents of Subsidiaries

G.F. Kym Anthony
President and
Chief Operating Officer
Corporate and Institutional
Services
National Bank Financial Inc.

Lawrence S. Bloomberg
Co-Chairman of the Board
and Co-Chief Executive Officer
National Bank Financial Inc.

Yves G. Breton
President
National Bank Securities Inc.

Pierre Brunet
Co-Chairman of the Board
and Co-Chief Executive Officer
National Bank Financial Inc.

Germain Carrière
President and
Chief Operating Officer
Individual Investor Services
National Bank Financial Inc.

Michel Tremblay
President
Natcan Investment
Management Inc.

Ombudsmen

Marisa Franceschini
Consumer Services

Roland Robichaud
Independent Businesses

Vice-Presidents

Dana Ades
Special Loans and
Real Estate, Canada

Santo Alborino
Employee Relations

Jean-Luc Alimondo
Europe/Middle East/Africa

Richard Barriault
Taxation

André Bélanger
Laurentians/Lanaudière

Guy Bérard
Risk Management and
Administration
Financial Markets

Pierre Blais
Government and
Public Sector Banking

André Boileau
Chaudière/Appalaches and
North Shore

Luc Bordeleau
Lower St. Lawrence/Gaspé

Michel Brouillette
Commercial Banking
Quebec City/Chaudière/Appalaches

Diane Cadieux
Montérégie-Sud

Jean-Paul Caron
Corporate Affairs

Linda Caty
Corporate Secretary

Gilles Choquet
South Shore

Rosaline Cyr
Ontario East and North

Jean Dagenais
Chief Accountant

France David
Audit

Philippe DesRosiers
Atlantic

Yvan Desrosiers
Saguenay/Lac Saint-Jean/
North Shore

Laura Dottori
Credit and Specialized Products

Lévis Doucet
Richelieu/Yamaska

Pierre Dubreuil
Syndication

Michel Faubert
Operations Support

Luc Fredette
Credit, Canada

Francine Gaudreault
Abitibi/Témiscamingue

Michel Gendron
Commercial Banking
Montreal/Bank Tower

Rubina Havlin
Business Development

Richard Hébert
Mauricie

Raymond H. Keroack
Network Support

Marc Knuepp
Controller

Pierrette Lacroix
Treasury, United States

Jean-Pierre Lambert
Outaouais

Jacques Latendresse
Nassau

Richard Leclerc
Business Development

Michelle Leduc
Eastern Townships

Réjean Lévesque
Western Montreal

Benoît Loranger
Central Montreal

Paul-André Malo
Special Projects, Real Estate

J. Archie Marshall
Central Ontario

Gilles Morin
Forest Products
National Bank Financial Inc.

Jean-Jacques Morin
Marketing

Martin Ouellet
Treasurer

Paul André Paradis
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Jacques Piché
International Commercial
Operations

Jacques A. Pinsonnault
Financial Markets

Gérard Proulx
Laval/North Shore

Roland Provost
Drummond/Bois-Francs

Nicole Rondou
Wealth Development

Lili J. Shain
Corporate Banking
National Bank Financial Inc.

Vincent Sofia
Asia

John W. Swendsen
Western Canada

Marc Taillon
Quebec City Urban Community

Pierre Therrien
Private Banking

Dominique Vachon
Chief Economist

Kathleen Zicat
Human Resources Development

ATLANTIC CANADA

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President
Cyr Holding Inc.
Moncton, NB

Eugène Durette
President
Brunswick Shopping Centre Ltd.
Edmundston, NB

Yvon Normandeau
General Manager
Commission d'expansion économique de la Péninsule Inc.
Tracadie-Sheila, NB

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President
Groupe Savoie Inc.
Saint-Quentin, NB

QUEBEC

Abitibi/Témiscamingue

Jacques Aubé
President
Gabriel Aubé Inc.
La Sarre

Frantz Boivin
Manager
CKVD & CHOI Rock Détente
Val d'Or

Robert Cloutier *
President and
Chief Executive Officer
Gestion Montemurro Ltée
Rouyn-Noranda

Claire Derome
President
Les Mines McWatters Inc.
Val d'Or

Claude Gagnon
President
Corporation Zodiaque Ltée
Ville-Marie

Normand Langlois
Secretary and Treasurer
Blais & Langlois Inc.
Matagami

Guylaine Paquin
President and
Chief Executive Officer
Lesage Tremblay Ultima
Rouyn-Noranda

Jean-Guy Roberge
Regional Vice-President
Imprimerie Québécor Lebonfon
Val d'Or

Chaudières/Appalaches

Sandra Blanchet
Gestion Blanchet Inc.
Saint-Romuald

Richard Duval
President
Les Lainages Victor Ltée
Saint-Victor

André Gosselin
President
Entreprises Dufour & Gosselin Inc.
Quebec City

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Thetford Mines

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Executive Vice-President
Équipement Labrie Ltée
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President and
Chief Executive Officer
Rousseau Métal Inc.
Saint-Jean-Port-Joli

Drummond/Bois-Francs

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President and
Chief Executive Officer
Thiro Ltée
Victoriaville

Nicole Coderre
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Location N.R.J. ltée
Saint-Eugène

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Cercueils Vic Royal Inc.
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Chief Executive Officer
Imprimerie d'Asbestos (1980) Inc.
Asbestos

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Sales Representative
Warwick

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President and
Chief Executive Officer
Vexco Inc.
Plessisville

Eastern Townships

Gérald Bouchard
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Service de l'Estrie
Sherbrooke

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Fontaine, Désy
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Dany Lachance
Notary
Lagassé Lachance Beaupré Poisson
Sherbrooke

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Director of
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Lac Mégantic

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Magog

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City of Rock Forest
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Windsor

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Imprimerie Bernier & Fils Inc.
Repentigny

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Saint-Gabriel-de-Brandon

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Pharmacie André Bolduc
Mont-Laurier

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Sainte-Agathe Sud

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Sainte-Adèle

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Régie intermunicipale Argenteuil Deux-Montagnes
Lachute

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Chief Executive Officer
Location Multiloc Inc.
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Thermoplast Inc.
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ISO Concept Inc.
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Lavallée Hébert, C.A.
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Intermat
Terrebonne

Lower St. Lawrence/Gaspé

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Price

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Carleton

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Marquis Pontiac Buick Inc.
Matane

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Rimouski

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Gendreau, Roy, Beaulieu & Carrier
Rimouski

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Groupe RT
Rivière-au-Renard

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Trois-Rivières

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Montérégie Sud

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Gatineau

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Maniwaki

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Roger Lachapelle
Pontiac Buick G.M.
Hull

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Marois Électrique (1980) Ltée
Hull

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Clinique 4 Tachereau
Aylmer

Robert Roy
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Hull

Richelieu/Yamaska

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Chief Executive Officer
Les Placements Robert Bernard Ltée
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Emballages Jean Cartier Inc.
Saint-Césaire

Jacqueline Larochelle
Chambly

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Camoguid Inc.
Saint-Théodore

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Saint-Hyacinthe

Réjane Salvail
Sainte-Anne-de-Sorel

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Sylvestre & Associés, avocats
Saint-Hyacinthe

Saguenay/Lac Saint-Jean/ North Shore

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Auberge des 21
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(1988) Enr.
Baie-Comeau

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Roberval

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Chief Executive Officer
Consomat
Alma

Marlène Ouellet *
Notary
Chicoutimi

Théogène Poirier
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Sani-Mobile-Onyx Industries
Sept-Iles

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Motel Chutes des Pères Inc.
Mistassini

Alain Tremblay
President and
Chief Executive Officer
Servi-Portes (93) Enr.
Jonquière

South Shore

Serge Beauchemin
President
Entreprises 3-Soft Inc.
Brossard

Luc Lambert
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Saint-Basile-le-Grand

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Boucherville

Pierre Trahan
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Cédarome Canada Inc.
Brossard

Farm Committee

Michel Desjardins
Farm Producer
Montebello

Jacynthe Gagnon
Farm Producer
Sainte-Agnès

Heinz Grogg
Farm Producer
Maskinongé

Pierre Joyal
Farm Producer
Les Maïs Pierre Joyal Inc.
Saint-David

Jean-Marc Lacroix
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J.M. Lacroix & Fils
Laval

Marie-Claire Lafrenière *
Farm Producer
Saint-Charles-de-Bellechasse

Serge Lefebvre
Farm Producer
Ferme St-Ours Inc.
St-Ours

Larry Ness
Farm Producer
Terrace Bank Ayrshires
Howick

High Technology Committee

François Aird
President
CEDROM-SNi
Outremont

Thomas Birch
President
Pyderion Contact Technologies Inc.
Saint-Laurent

Philippe Collard
President and
Chief Executive Officer
Virtual Prototypes Inc.
Montreal

Denis Gadbois
President
Mediagrif Interactive Technologies
Longueuil

Bernard Hamel *
President
GTI Capital
Montreal

Thomas G. Ivaskiv
President and
Chief Executive Officer
AD OPT Technologies Inc.
Montreal

André La Forge
Partner
KPMG
Montreal

ONTARIO

Central Ontario (Toronto)

J.R. Alexander
President
Algonquin Group of Companies
Huntsville

John K. Macdonald
President
Armak Resilient Floor Covering
Corporation
Mississauga

Marlene Oilgisser
Richmond Hill

Ted Pattenden
President
NRI Industries Inc.
Toronto

Leslie Slater
Chartered Accountant
Toronto

Claude Théberge *
Chief Executive Officer
C.M.L. Industries Ltd.
Unionville

Eastern Ontario (Ottawa)

Pierre Bergeron
Publisher
Le Droit
Ottawa

Noël J. Berthiaume
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Berthiaume, Perrier and Assoc.
Hawkesbury

John French
President
Dustbane Products Ltd.
Ottawa

Jacques Lamarche
Farm Producer
Lefaivre

Christine Lamothe-Moir
Managing Partner
Performance Development Training
Ottawa

Richard Laplante
President
Builder's Warehouse Inc.
Orléans

Andrew Wolff
President
OZ New Media
Ottawa

Carole Workman *
Vice-Rector – Resources
University of Ottawa
Ottawa

Windsor/Essex

Fred Cowlin
President
Clydesdale Insurance
Brokerage Limited
Windsor

Murray G. Cummings
President
TSC Stores Ltd.
London

John Furlan
President and
Chief Executive Officer
H.E. Vannatter Limited
Wallaceburg

Tom O'Brien
Partner
PricewaterhouseCoopers
Windsor

John E. Omstead *
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Family Tradition Foods Inc.
Wheatley

Karl Richter
President
Schukra of North America Ltd.
Windsor

Jeffrey M. Slopen
Partner
Wilson, Walker, Hochberg, Slopen
Windsor

Michael George Solcz
President and
Chief Executive Officer
Valiant Machine & Tool Inc.
Windsor

Rochelle Tepperman
Vice-President
Tepperman Furniture Appliance
Electronic
Windsor

* Chair of the Committee

Subsidiaries and Offices Abroad

SUBSIDIARIES

CANADA
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600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Treasury and Securities

National Bank Financial Inc.
1155 Metcalfe, 5th Floor
Montreal, Quebec H3B 4S9

FMI Acquisition Holding Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

FMI Acquisition Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

NBC Clearing Services Incorporated
1155 Metcalfe
Montreal, Quebec H3B 4S9

Natcan Investment Management Inc.
1100 University
Montreal, Quebec H3B 2G7

Innocap Investment Management Inc.
1100 University
Montreal, Quebec H3B 2G7

Export Financing

NatExport, a division of Natcan Trust Company
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

NBC Export Development Corporation Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Information Services

SIBN Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Wealth Management

Insurance
National Bank Life Insurance Company
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

AssurNat, Insurance Firm Inc.
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Montreal, Quebec H3B 2G7

Trust Services
General Trust of Canada
1100 University
Montreal, Quebec H3B 2G7

Natcan Trust Company
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Discount Brokerage and Group Savings
National Bank Securities Inc.
1100 University
Montreal, Quebec H3B 2G7

National Bank Discount Brokerage Inc.
1100 University
Montreal, Quebec H3B 2G7

National Bank Financial Services (Investments) Inc.
1100 University
Montreal, Quebec H3B 2G7

Municipal Securities Inc.
70 Collier Street, P. O. Box 147
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Financial Planning
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Lease Financing

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National Canada Business Corp.
125 West 55th Street
New York, NY 10019

National Canada Export Corporation
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New York, NY 10019

BAHAMAS
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Charlotte Street, P. O. Box N3015
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BARBADOS
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350 Main Street, Suite 2540
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Two First Union Center
Suite 2020
Charlotte, NC 28282

312 Walnut Street, Suite 1900
Cincinnati, OH 45202

One Cleveland Center
1375 East 9th Street, Suite 2430
Cleveland, OH 44114

2121 San Jacinto Street
Suite 1850
Dallas, TX 75201

One Tabor Center
1200 17th Street, Suite 2760
Denver, CO 80202

165 Madison Avenue
Suite 1610
Memphis, TN 38103

201 St. Charles Avenue
Suite 3203
New Orleans, LA 70170

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301 Grant Street, Suite 3440
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Somerville, NJ 08876

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GENERAL INFORMATION

INCORPORATION

National Bank of Canada (the "Bank") is a Schedule I bank under the *Bank Act*. The Bank's roots date back to 1859 with the founding of the *Banque Nationale* in Quebec City. The Bank of today was formed through a series of amalgamations, notably with The Provincial Bank of Canada in 1979, with The Mercantile Bank of Canada in 1985, and with National Bank Leasing Inc., its wholly-owned subsidiary, in 1992. Its head office and principal place of business is located at the National Bank Tower, 600 de La Gauchetière West, Montreal, Quebec, Canada H3B 4L2.

ENVIRONMENTAL ISSUES

In order to minimize environmental risks, a few years ago the Bank implemented a procedure setting out its environmental responsibilities when granting credit and taking possession of assets. To date, the risks involved have not had a material impact on the Bank's operations.

EXECUTIVE OFFICERS

The officers mentioned on pages 94 and 95 have held various management, executive or senior executive positions with the Bank during the past five years, with the exception of Santo Alborino who, from 1993 to 1998, was employed by Bank of Montreal as Senior Manager – Employee Relations; G.F. Kym Anthony who, from 1998 to 1999, was employed by First Marathon Securities Ltd. as Chief Operating Officer and Executive Vice-President, and from 1993 to 1998, was employed by TD Securities Inc. as Chair and Chief Executive Officer; Lawrence S. Bloomberg, who founded First Marathon Inc. in 1979 and, from 1979 to 1999, was its President and Chief Executive Officer; Yves G. Breton who, from 1991 to 1995, was employed by *Société de portefeuille du groupe Desjardins Assurances générales* as Senior Vice-President and General Manager; in 1995, was employed by *La Survivance, compagnie mutuelle d'assurance-vie* as President and Chief Executive Officer; from 1995 to 1998, was employed by *Confédération des caisses populaires et d'économie Desjardins du Québec* as Senior Vice-President – Markets and Advisor to the President and Chief Operating Officer; and in 1998, was employed by the Montreal Exchange as Senior Vice-President and General Manager – Markets; Linda Caty who, from 1986 to 1994, was employed by Canadian Liquid Air Ltd. as Assistant Secretary, and from 1994 to 1998, was employed by Meloche Monnex Inc. as Corporate Secretary; Pierre Desbiens who, from 1990 to 1994, was employed by Empire Financial Group as Regional Vice-President and General Manager; Gisèle Desrochers who, from 1989 to 1994, was employed by the Quebec Government as Deputy Minister – Department of Recreation, Fish and Game; as Associate Secretary General – Administrative Reform and Higher Employment; and as Deputy Minister – Department of Revenue; Luc Fredette who, from 1992 to 1996, was employed by Royal Bank of Canada as Senior Manager – Business Lending, Senior Manager – Credit, Quebec and Deputy Manager; Michel Gendron who, from 1993 to 1998, was employed by Royal Bank of Canada as Deputy Manager – Business Banking, and Regional Manager – Business Banking; Rubina Havlin who, from 1994 to 1996, was employed by Canadian Tire Acceptance Ltd. as Group Product Manager, and, from 1996 to 1999, was employed by Citibank-Diners Club Canada as Assistant Vice-President – Marketing; Richard Hébert who, from 1993 to 1997, was employed by Bank of Montreal as Manager – Personal and Commercial Financial Services, and Regional Manager – Laval North Shore; Douglas E. Kemp-Welch who, from 1995 to 1997, was employed by Bank of Montreal as Vice-President – Toronto East Flagship, Personal and Commercial Financial Services; from 1997 to 1998, as Vice-President – Eastern Ontario Flagship, Personal and Commercial Financial Services; and from 1998 to 1999, as Vice-President – Eastern Northern Ontario Group, Personal and Commercial Financial Services; Jean-Jacques Morin who, from 1998 to 1999, was employed by Jazz Media Network as Vice-President – Marketing and Business Development, and from 1990 to 1997, was employed by Culinar, Vachon Division as Vice-President – Marketing; Jacques A. Pinsonnault who, from 1994 to 1999, was employed by Bankers Trust of Canada as Managing Director – Capital Markets; Pierre Therrien who, from 1990 to 1998, was employed by Royal Bank of Canada as Manager – Private Banking Centre; Michel Tremblay who, from 1993 to 1998, was employed by ING Canada as Senior Vice-President – Investments, and by ING Investment Management as Senior Vice-President and Managing Director; and Louis Vachon who, from 1994 to 1996, was employed by BT Bank of Canada as President and Chief Executive Officer. The directors and executive officers of the Bank, as a group, beneficially own less than 2% of the outstanding common shares of the Bank.

REAL ESTATE

With respect to real estate holdings, as at October 31, 1999, the Bank owned, through its subsidiary National Bank Realty Inc., its head office in Montreal and, for its operations, owned 129 other buildings in Canada and leased 554 premises, including 34 abroad. The Bank's consolidated fixed assets at cost, less accumulated amortization, and excluding furniture, equipment and leasehold improvements, amounted to $168 million as at October 31, 1999. Information concerning the Bank's fixed assets is provided in Note 6 to the consolidated financial statements on page 63 of the Annual Report.

ADDITIONAL INFORMATION

The Bank undertakes to provide to any person, upon request, a copy of the Annual Information Form of the Bank, together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the year ended October 31, 1999 with the accompanying auditors' report, a copy of any subsequent quarterly financial statements, a copy of the Management Proxy Circular of the Bank in respect of its most recent Annual Meeting of Shareholders that involved the election of directors and a copy of any other document that is incorporated by reference into a preliminary short form prospectus or a short form prospectus whenever the securities of the Bank are part of a distribution. The Bank's Management Proxy Circular dated January 27, 2000, which is enclosed with the Notice of Annual Meeting of Shareholders scheduled for March 15, 2000, contains additional information such as the remuneration and indebtedness of directors and executive officers, the principal holders of Bank shares and the share options awarded. Copies of these documents may be obtained upon request from the Corporate Secretary's Office of the Bank, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

DOCUMENTS INCORPORATED BY REFERENCE

Additional items comprising the Bank's Annual Information Form are disclosed in various sections of this Annual Report and are incorporated by reference as set out below.

Item	Reference
1. Major Subsidiaries	Pages 84, 98 and 99
2. General Development of the Business	Pages 2 to 5
3. Description of Business and Competitive Conditions	Pages 8 to 22
4. Loans by Borrower Category	Page 42, Table 10
5. Impaired Loans	Page 43, Table 13 and Page 62, Note 4
6. Interest on Impaired Loans	Page 43, Table 14
7. Provision for Credit Losses	Page 39, Table 4
8. Designated Countries	Page 43, Table 12
9. Personal, Business and Mortgage Loans	Page 38, Table 2 and Page 52
10. Earning Assets Abroad	Page 72, Note 19
11. Assets Under Administration/Management	Page 41, Table 9
12. Personnel	Pages 1 and 83
13. Main Consolidated Financial Data	Pages 44, 45, 82 and 83
14. Cash Dividends and Dividend Policy	Page 65, Note 11 and Page 102
15. Quarterly Results	Pages 44 and 45
16. Management's Discussion and Analysis	Pages 23 to 43
17. Market for Trading Bank's Securities	Page 102
18. Directors and Officers	Pages 87 to 89, 94 and 95

November 23, 1999

Information for Shareholders and Investors

GENERAL INFORMATION

Stock exchange listings

The common shares of the Bank as well as the First Preferred Shares, Series 10, 11 and 12 are listed on the Toronto and Vancouver stock exchanges. The ticker symbols and newspaper abbreviations for the Bank's shares are as follows:

	Ticker Symbol	Newspaper Abbreviations		
Common Shares	NA	Nat Bk	or	Natl Bk
First Preferred Shares				
– Series 10	NA.PR.G	Nat Bk s10	or	Natl Bk s10
– Series 11	NA.PR.H	Nat Bk s11	or	Natl Bk s11
– Series 12	NA.PR.I	Nat Bk s12	or	Natl Bk s12

Transfer Agent and Registrar
General Trust of Canada
1100 University
9th Floor
Montreal, Quebec
H3B 2G7
Telephone: (514) 871-7171
1-800-341-1419

National Bank of Canada Head Office
National Bank Tower
600 de La Gauchetière West
Montreal, Quebec
H3B 4L2
Telephone: (514) 394-5000
Telex: 0525181
(Nabacan Montreal)
Internet: www.nbc.ca

General Trust of Canada acts as Transfer Agent and Registrar in Montreal, Toronto, Regina, Calgary, Halifax, Saint John, Vancouver and Winnipeg.

Dividend Reinvestment and Share Purchase Plan

Under the Dividend Reinvestment and Share Purchase Plan, holders of common shares or preferred shares of the Bank may invest in common shares of the Bank without paying a commission or administration fee.

Participants in the Plan may acquire shares by reinvesting cash dividends paid on shares held by them or by making optional cash payments of a minimum of $500 per cash payment, up to $5,000 per quarter.

For additional information, contact the Registrar, General Trust of Canada, at (514) 871-7171 or 1-800-341-1419.

Direct deposit service

Shareholders of the Bank may elect to have their dividends deposited directly into the bank account of their choice by advising General Trust of Canada.

Number of shareholders

As at October 31, 1999, there were 32,048 registered holders of common shares listed with the Registrar.

Payment of dividends

Declared dividend payments for common shares are made on the 1st of February, May, August and November; for First Preferred Shares, Series 10, 11 and 12, the dividend payment date is the 15th day of the above months.

The dividend record dates for common shares are December 30, 1999, and March 23, June 22 and September 28, 2000; for First Preferred Shares, Series 10, 11 and 12, they are January 7, April 7, July 7 and October 13, 2000.

Information

For any additional information, shareholders are requested to contact the Transfer Agent and Registrar, General Trust of Canada.

Shareholders who receive more than one copy of a document, particularly of quarterly or annual reports, are requested to notify the Registrar.

Annual Meeting

The Annual Meeting of Holders of Common Shares of the Bank will be held on Wednesday, March 15, 2000, at 8:30 a.m., at The Queen Elizabeth Hotel, 900 René-Lévesque Blvd. West, Montreal, Quebec.

Caution regarding forward-looking statements

As part of its analyses and reports, National Bank of Canada from time to time makes forward-looking statements concerning the economy, market changes, the achievement of strategic objectives, certain risks and other related matters.

By their very nature, such forward-looking statements involve inherent risks and uncertainties. It is therefore possible that express or implied projections contained in such statements will not materialize or will differ materially from actual future results. Such differences may be caused by factors which include, but are not limited to, changes in Canadian and/or global economic conditions (particularly fluctuations in interest rates, currencies and other financial instruments), market trends, technological changes and regulatory developments.

Investors and others who base themselves on the Bank's forward-looking statements to make decisions should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank therefore cautions readers not to place undue reliance on these forward-looking statements.

This Annual Report is published by the Public Relations Department, National Bank of Canada.

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